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## Contents

|   |    |
|---|----|
| Contents .....  | 1  |
| Prologue .....  | 3  |
| From the Commissioner .....   | 4  |
| Message From the Chief Financial Officer .....                        | 5  |
| Mission, Strategic Intent, Accomplishments, and Major Challenges..... | 6  |
| Customs Leadership.....   | 7  |
| Stationed For Service .....   | 9  |
| FY 1999 Operational Highlights .....                                  | 10 |
| Workload (FY 1995 - FY 1999).....                                     | 12 |
| Results/Outputs (FY 1995 - FY 1999) .....                             | 16 |
| Outcomes .....  | 19 |
| FY 1999 Annual Performance Goals/Results.....                         | 21 |
| Financial Management Highlights and Performance .....                 | 34 |
| Biennial Review of Treasury Charges .....                             | 38 |
| Financial Management Systems Initiatives .....                        | 38 |
| Year 2000 (Y2K) Issues .....  | 39 |
| Federal Managers' Financial Integrity Act (FMFIA) Summary .....       | 40 |
| Report of the Office of Inspector General.....                        | 43 |
| Financial Statements .....  | 56 |
| Required Supplementary Information.....                               | 88 |
| Other Accompanying Information.....                                   | 93 |
| Acronyms.....   | 97 |
| "Faxback Feedback" .....  | 98 |

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## Prologue

This report consolidates the requirements for the U.S. Customs Service (Customs) to produce an Agency Accountability Report, consistent with the requirements of the Government Performance and Results Act of 1993 (GPRA), and an Annual Financial Report pursuant to the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA). It also supports the U.S. Department of the Treasury (Treasury) requirement to produce a Departmentwide Accountability Report as required by GMRA.

This Fiscal Year (FY) 1999 Accountability Report focuses on Customs mission accomplishments, presents financial management information, and represents on-going efforts to streamline statutory reporting requirements while providing useful information to internal and external customers. Customs financial statements, located in the latter part of this report, provide the financial position and results of Customs operations, pursuant to the requirements of 31 U.S.C. §3515. While the statements have been prepared from Customs books and records in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are supplemental to the financial reports used to monitor and control budgetary resources prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government. One implication of this is that unfunded liabilities cannot be liquidated without legislation that provides the resources to do so.

### *Did you know?*

Before 1789, each state had its own Customs Service that assessed Customs duties. Congress believed that the collections from the individual states were not going to release the Nation from its money problems. Therefore, Congressman James Madison proposed a Tariff Act that would place a duty on imports and establish an agency to ensure that the duties would be collected. On July 4, 1789, the Tariff Act (effective August 1, 1789) was passed by the first Congress and signed by President George Washington.



## From the Commissioner

Since the founding of our Republic, the U.S. Customs Service has been a trusted partner in America's prosperity and security. Yet conditions at the new millennium promise to test our abilities as never before. As everyone who deals internationally knows, we are in the midst of a booming era of global trade. The surge in imports and exports will nearly double Customs workload in the next 5 years alone. While this growth presents unprecedented opportunities for our world economy, it also offers profound challenges for Customs mission to facilitate and enforce.

As Commissioner, I am responsible for the overall management, direction, and performance of the Customs Service. I am proud to present this FY 1999 Accountability Report. As a fact-based scorecard of our operational and financial performance, the Accountability Report charts our annual accomplishments and lays the foundation for future improvements.

1999 was a year of momentous change for Customs. Heavy emphasis was given to internal reforms as a first step in preparing the agency for the challenges that lie ahead. These changes were felt throughout Customs, and included the restructuring of the Office of Internal Affairs to bolster integrity; the creation of a new system of discipline for employees; the establishment of new accountability standards; and the design of new uniforms and official vehicle markings to strengthen pride and professionalism.



Commissioner Raymond W. Kelly

Customs was also hard at work on a new automated system that will revolutionize the way the nation's trade is processed. Successful prototypes were tested that incorporate the modern technology envisioned for the Automated Commercial Environment (ACE). However, until Customs is provided sufficient funding, these prototypes will be concluded and we will not be able to replace Customs current, outdated automated system. Modernization must remain a top priority as we strive to fund, construct, and implement ACE in the next few years.

Our enforcement successes will be closely bound to our progress on new automation. Timely, accurate information will be indispensable in helping us to sift out the small percentage of dangerous or illegal goods passing through U.S. borders. The most dangerous and prevalent of these continues to be illegal narcotics. Drug smuggling shows little sign of abating; in fact, the quantity of Customs overall seizures of illegal narcotics was up 17.5 percent in FY 1999. This was largely the result of important strategic planning and operational successes, as well as outstanding coordination between Customs and its partner border enforcement agencies.

The past year also brought a reminder of an all-too-real scenario threatening our borders; the smuggling of weapons of mass destruction by international terrorists bent on targeting America. The courageous actions of Customs inspectors along our northern borders in December 1999 prevented a potential deadly terrorist conspiracy and highlighted the need for added vigilance along our frontiers. Customs will continue to seek and deploy the resources necessary to deter this threat.

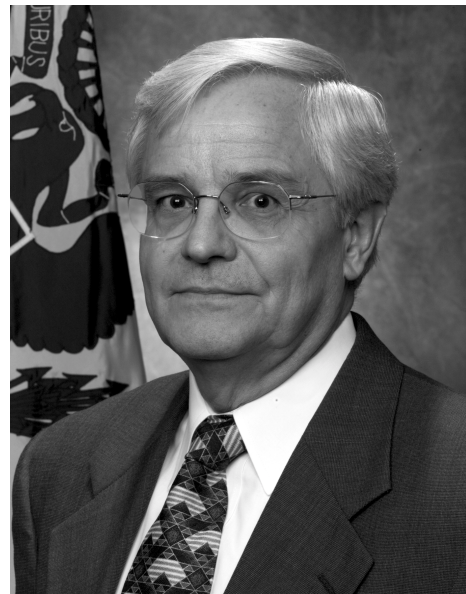
For 210 years, Customs has stood as America's frontline. But perhaps at no other time in our long history have the challenges before us been greater than they are now. America will rely more than ever on the nation's oldest law enforcement agency to protect and defend its economy, its citizens, and its communities. As in the past, Customs stands ready with creative solutions that facilitate trade while upholding our obligations under the law.



## Message from the Chief Financial Officer

The FY 1999 Accountability Report provides strong evidence of Customs continuing commitment to effective management of its resources and finances. The report includes an analysis of Customs financial management performance based on both internal performance measures and independent external evaluations. The analysis indicates that Customs has made additional progress in its efforts to resolve problems identified in the Chief Financial Officers audit process. It also highlights the formidable challenges Customs faces in implementing solutions that inevitably mean significant resource investment.

Customs has achieved an unqualified opinion on its financial statements for the fourth consecutive year, an important accomplishment considering the gravity of the financial weaknesses Customs has overcome to obtain unqualified opinions. An unqualified opinion conveys an important message about sound financial management within an organization: 1) that Customs has been able to improve its methods, processes, and systems for recording and accumulating financial data to the extent that the data presented in its financial statements is fairly presented; 2) that Customs statements fairly characterize Customs actual financial position, a significant issue for the public, Congress, and OMB; and 3) that Customs has established credibility as a conscientious caretaker of public resources.



Chief Financial Officer C. Wayne Hamilton

I would like to express my thanks to all the people who helped Customs obtain an unqualified opinion on the financial statements. The achievement of an unqualified opinion requires a tremendous effort from individuals at all levels of the Customs organization. The preparation and presentation of accurate and timely financial information is dependant on the day-to-day work of countless individuals who carefully record and monitor transactions. Whether they collect and deposit revenue, keep track of Customs property, deal with payments and refunds, or help in basic accounting for resources, we owe a debt of gratitude to them.

During FY 1999, we proceeded with a number of important financial management initiatives. The Cost Management Information System (CMIS), designed to help Customs manage and report the costs of operations, was implemented Customswide. We successfully implemented throughout Customs the Smart Card Program to expedite micro-purchase transactions and electronic commerce applications. Approximately \$33 million in purchases were made through Smart Card. We began the use of Fast-track, a new contracting method which reduced the time to award certain contracts by 30 to 40 days. Efforts to establish better asset management advanced with the Investment Review Board's approval of the Quality Planning for Asset Management concept, the completion of baseline requirements, and a software solicitation award.

Also during the past year, we established an effective claim and refund process to issue refunds on Harbor Maintenance Fee payments because these payments were declared unconstitutional. Customs is improving its bond management and sufficiency process and has streamlined interagency audit processes. By partnering with the Department of Agriculture (USDA), passenger fee audits were conducted by USDA on behalf of Customs, leading to collections of \$7.2 million over a 15-month period. Customs also joined Treasury in moving to the Electronic Posting System for solicitations and contracts, a desirable electronic commerce advance. Finally, we continued contract management improvements and innovations, and improved acquisition planning.

I believe that we have established a stable environment for implementing good financial management within Customs. We intend to enhance and build upon this process. We are committed to maintaining high standards as we face the challenges associated with modernizing and improving our financial management and cost accounting systems.

A handwritten signature in cursive script that reads "Wayne Hamilton".



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## **Mission, Strategic Intent, Accomplishments, and Major Challenges**

### **Mission**

We are the guardians of our Nation's borders -- America's frontline. We serve and protect the American Public with integrity, innovation, and pride. We enforce the laws of the United States, safeguard the revenue, and foster lawful international trade and travel.

### **Strategic Intent**

To protect the public against violations which threaten the national economy and health and safety through targeted enforcement and informed compliance and to be the national resource for information on goods and people crossing our borders.

### **Significant Accomplishments for FY 1999**

Customs seized or assisted in the domestic seizure of a record quantity of narcotics in FY 1999, nearly 1.4 million pounds (includes over 8,000 pounds of other controlled substances) and Customs seized, or assisted in the domestic seizure of, \$329.7 million in monetary instruments. This was due largely to enhanced Southwest Border and maritime interdiction, improved targeting, expansion of specialized teams dedicated to asset forfeiture, and successful undercover operations, combined with stringent reporting requirements for certain money remitters in targeted geographic locations.

As a result of Customs investigations, individuals were indicted for the attempted exportation of military technology to the People's Republic of China, aircraft and missile parts to Iran, and night-vision systems to Iraq. A trade fraud investigation led to a seizure of 43 containers of textiles and wearing apparel, valued at \$13 million, that was smuggled from China.

Customs made 204 arrests related to child pornography, and trained more than 1,000 foreign prosecutors, legislators, and law enforcement officers on how to conduct Internet child pornography investigations.

In October 1998, Customs implemented the Reconciliation Prototype. During FY 1999, over 1 million entries were flagged for reconciliation and, as of September 1999, about 60 reconciliation entries had been received, closing out over 5,000 flagged entry summaries pertaining to approximately \$209 million in imports.

Both the Overall and the Primary Focus Industry (PFI) letter-of-the-law compliance rates for FY 1999 have increased by one percent from FY 1998. In addition, both the Overall and the PFI major transactional compliance rates for FY 1999 have increased by one percent from FY 1998. Based on major transactional discrepancies (i.e., significant discrepancies factored in) we have reached our goal of achieving 90 percent overall compliance.

### **Major Challenges for FY 2000**

As Customs enters the twenty-first century, the following significant challenges face the organization and its workforce:

- Focusing on integrity, accountability, discipline, training, automation, passenger and trade services, integrated air and marine interdiction, and high impact investigations;
- Continuing to focus on facilitating the flow of legitimate commerce and travelers while at the same time identifying, disrupting, and dismantling entities that threaten the legitimate flow of commerce;
- Continuing Customs efforts to identify, disrupt, and dismantle narcotics and related money laundering organizations;
- Combating increasing terrorist threats;
- Maintaining a forward-thinking approach to the deployment of technology and automation; and
- Balancing the demands of external stakeholders with whom Customs needs to meet its performance goals.

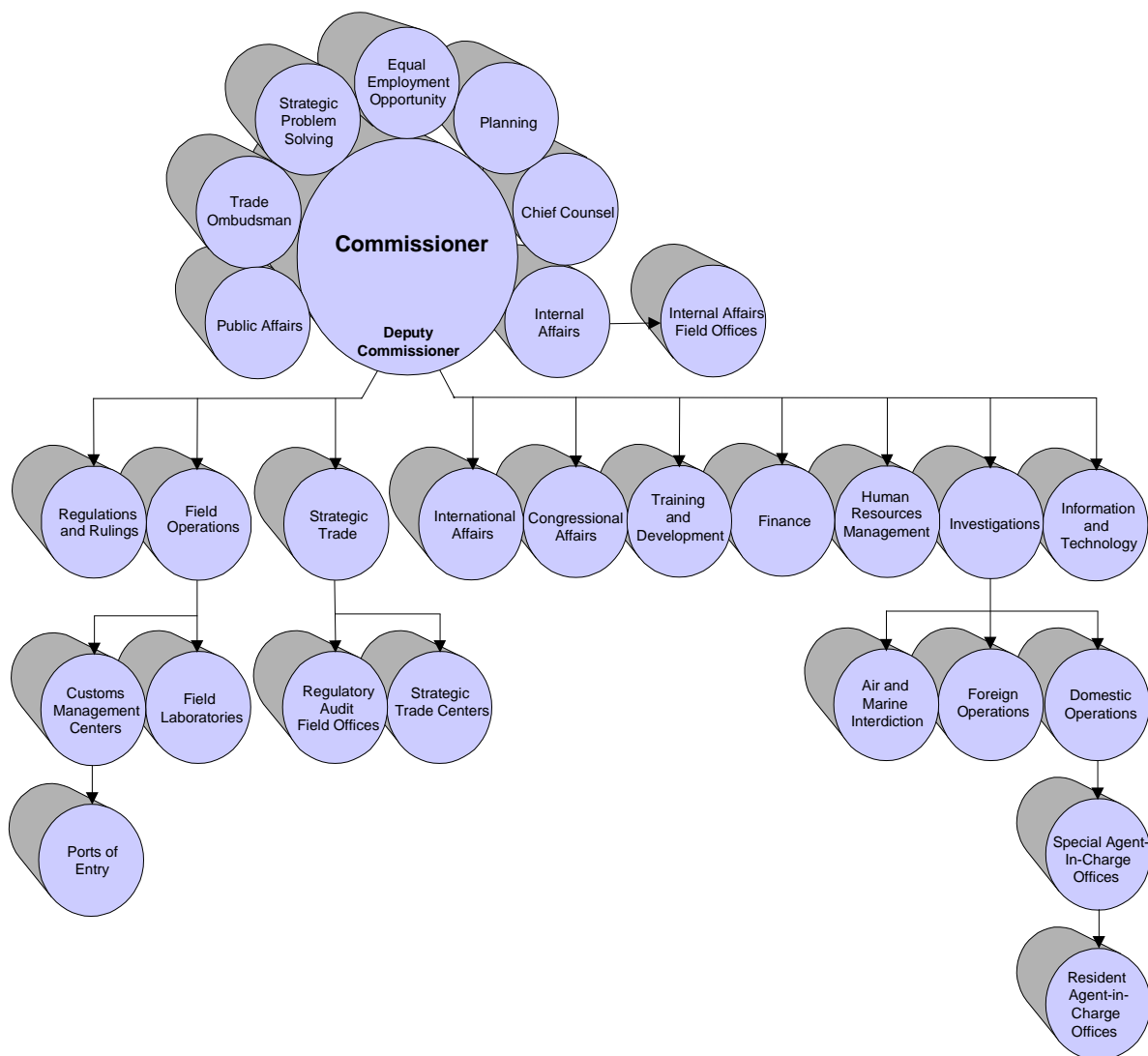


## Customs Leadership

**Commissioner**, Raymond W. Kelly, (202) 927-1000: manages and directs Customs. The Commissioner's staff includes the Office of Public Affairs, the Trade Ombudsman, the Office of Strategic Problem Solving, the Equal Employment Opportunity Office, and the Office of Planning.

**Deputy Commissioner**, Charles W. Winwood (Acting), (202) 927-1010.

**Office of the Chief Counsel**, Alfonso Robles, (202) 927-6900: represents and provides legal advice to employees on Customs matters.







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## Assistant Commissioners:

**Office of Congressional Affairs**, Seth Statler, (202) 927-1760: Congressional Affairs serves as the liaison for all legislative and congressional matters.

**Office of Field Operations (OFO)**, Robert J. McNarmara (Acting), (202) 927-0100: OFO processes people and merchandise entering and departing the United States; assesses and collects duties; detects and intercepts contraband; ensures imports and exports meet legal entry and exit requirements; classifies merchandise; and verifies import and export statistics. OFO's field structure includes 20 Customs Management Centers (CMCs), over 300 Ports of Entry (POEs), and 7 field laboratories.

**Office of Finance (OF)**, C. Wayne Hamilton, (202) 927-0600: OF is responsible for financial management systems and programs in the areas of accounting, budget, procurement, logistics, and financial management. OF includes the Financial Management Services Center in Indianapolis.

**Office of Human Resources Management (HRM)**, Deborah J. Spero, (202) 927-1250: HRM is responsible for all human resources programs including recruitment, labor and employee relations, employee services and benefits, and safety.

**Office of Information and Technology (OIT)**, S.W. Hall, Jr., (202) 927-0680: OIT is responsible for the development of all information technology systems, inspectional and investigative research and development programs, and managing all computer resources.

**Office of Internal Affairs (IA)**, William A. Keefer, (202) 927-1800: IA is responsible for internal security, integrity, and management inspection programs. IA's field structure includes 21 field offices. The Assistant Commissioner, IA, reports directly to the Commissioner on all matters.

**Office of International Affairs (INA)**, Douglas M. Browning, (202) 927-0400: INA manages international activities by promoting law enforcement and trade facilitation goals through bilateral and multilateral agreements and initiatives, including international training and assistance.

**Office of Investigations (OI)**, Bonni G. Tischler, (202) 927-1600: OI manages Customs investigative arm. OI provides intelligence and manages the air and marine interdiction programs. Additionally, the field structure includes 20 Special Agent-in-Charge Offices, over 100 Resident Agent-in-Charge Offices, 10 air branches, 10 air units, 16 marine interdiction units, and 23 foreign attaché offices.

**Office of Regulations and Rulings (OR&R)**, Stuart P. Seidel, (202) 927-0760: OR&R issues legal rulings, drafts regulations, and provides informed compliance information to the trade community.

**Office of Strategic Trade (OST)**, Robert S. Trotter, (202) 927-0570: OST analyzes major trade issues, develops strategies to assess and increase compliance, and leads the integrated trade measurement program, including compliance measurement and assessment. OST consists of operations and analytical development divisions at Headquarters, 5 Strategic Trade Centers, and 33 Audit offices nationwide as well as the Strategic Analysis Staff in New York.

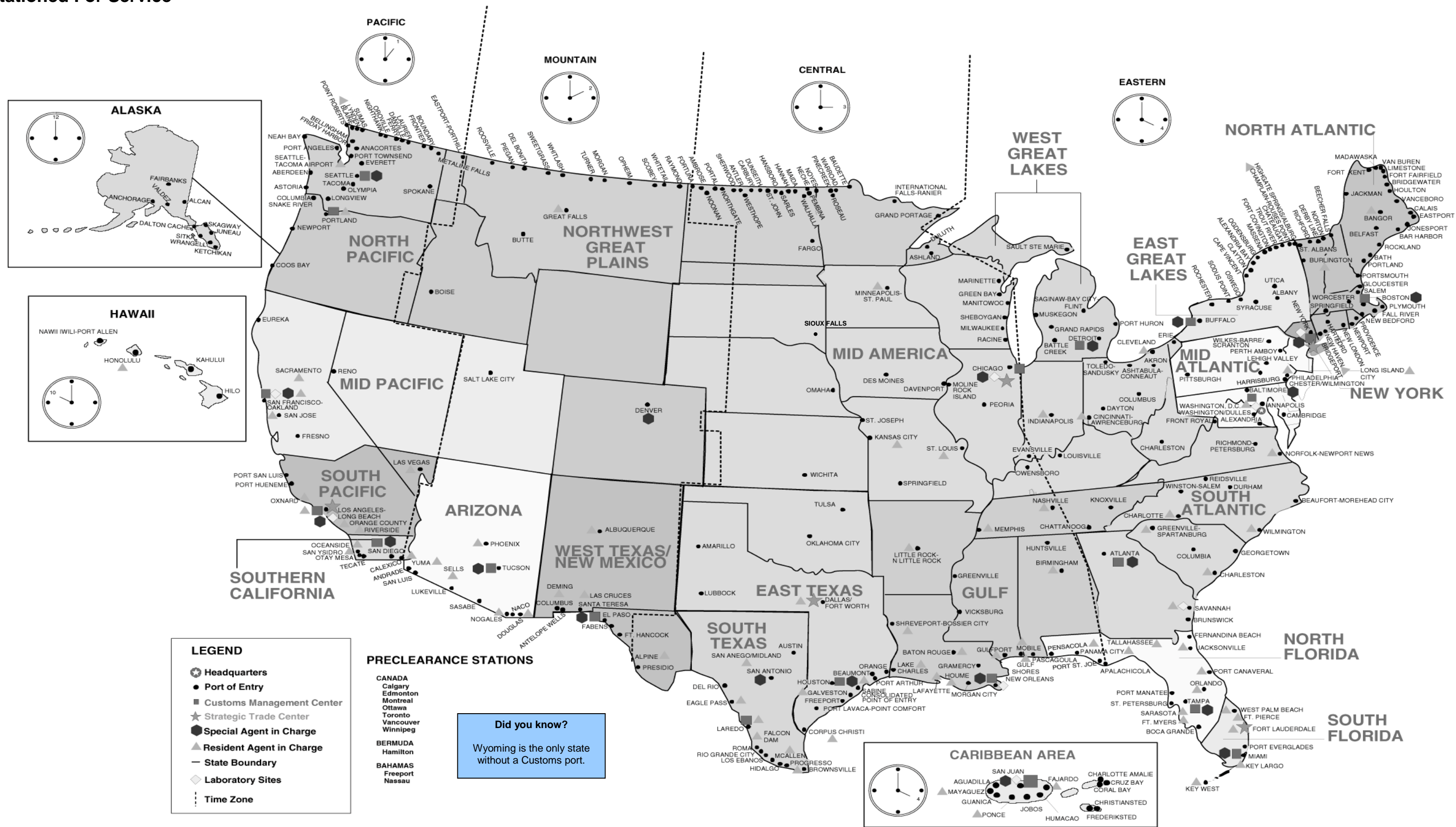
**Office of Training and Development (OTD)**, Marjorie L. Budd, (202) 927-0730: OTD is responsible for the planning, execution, and inspection of all workforce training and career development. Through its policies, instructional systems, standards, and technology, OTD ensures that Customs employees and managers possess the competencies they need to perform at the highest levels of professionalism and integrity throughout their careers.

### *Did you know?*

Herman Melville (author of *Moby Dick*), Pat Garrett (the sheriff who caught Billy "the Kid"), President Ulysses S. Grant, President Chester Arthur, and Teddy Roosevelt's "Rough Riders" were some of the famous people who were Customs Officers.



Stationed For Service

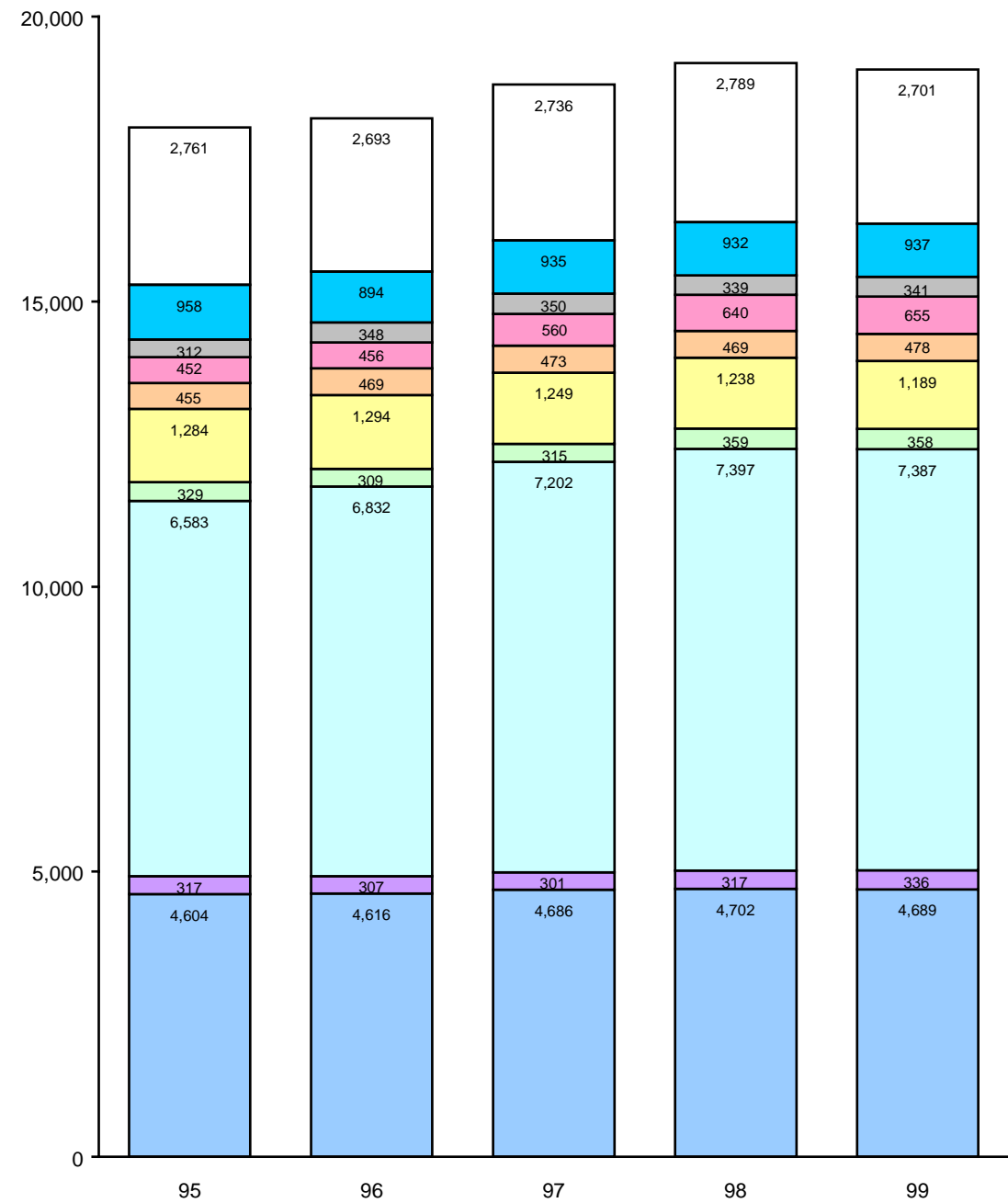




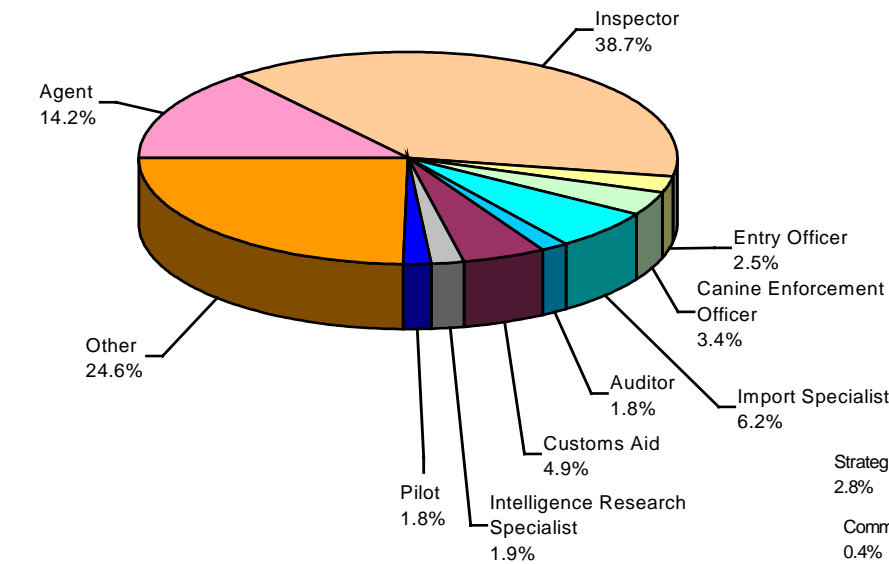


FY 1999 Operational Highlights  
Full-time Permanent Workforce

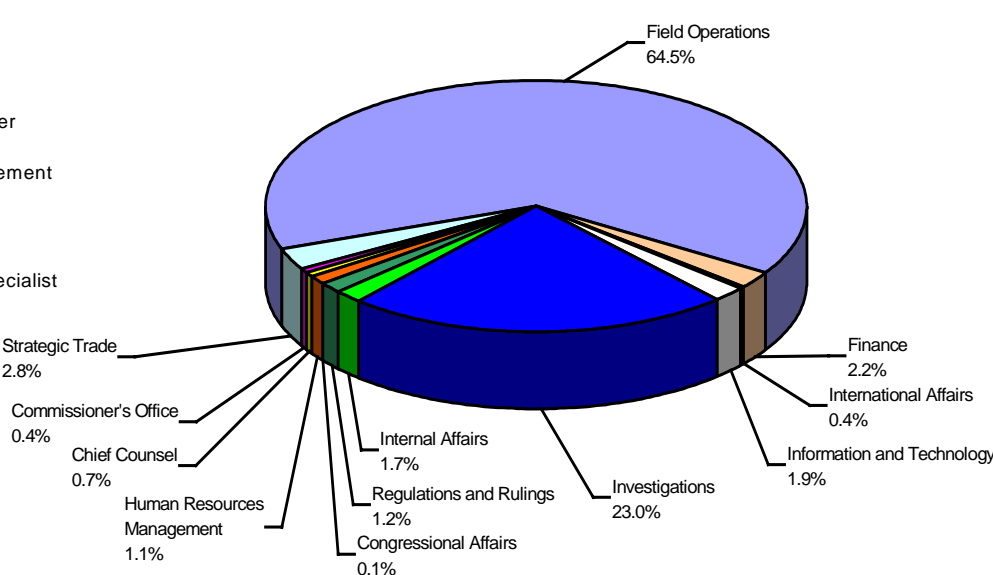
Workforce Trends by Major Occupation



By Major Occupation



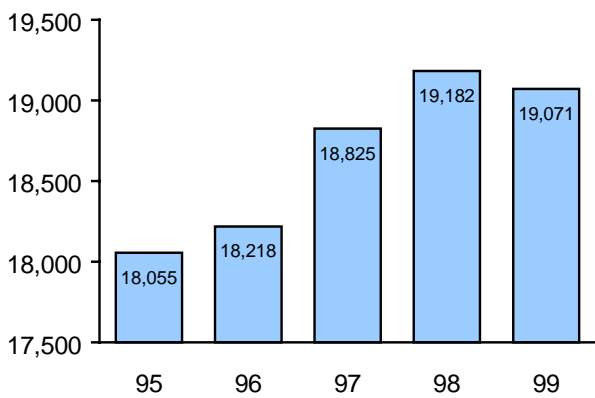
By Office



Did you know?

By 1792, Customs had about 500 employees.  
Today, there are over 19,000 employees.

Full-time Permanent Workforce



Actual FY Budget Resource Obligations (millions)

|  | 95    | 96    | 97    | 98    | 99    |
|--|-------|-------|-------|-------|-------|
| Salaries and Expenses direct (includes obligations authorized under COBRA) | 1,652 | 1,658 | 1,806 | 1,881 | 2,067 |
| Salaries and Expenses reimbursable   | 425   | 412   | 391   | 439   | 462   |
| Crime Bill   | 4     | 11    | 10    | 55    | 21    |
| Operations and Maintenance   | 107   | 104   | 113   | 169   | 195   |
| Facilities   | 20    | 1     | 2     | 2     | 2     |
| Customs Forfeiture Fund  | 0     | 0     | 0     | 0     | 0     |
| Small Airports   | 2     | 2     | 3     | 3     | 3     |
| Miscellaneous Permanent  | 138   | 114   | 115   | 119   | 106   |
| Refunds, Transfers   | 3     | 2     | 7     | 8     | 7     |
| Harbor Maintenance Fee   | 0     | 3     | 3     | 3     | 3     |
| Totals   | 2,351 | 2,307 | 2,450 | 2,679 | 2,866 |

Note: All data on this page represents the full-time permanent Customs workforce as of September 25, 1999.



## Diversity

As a law enforcement and trade facilitation agency, Customs will continue to capitalize on the diversity of its workforce. This diversity is necessary not only to maintain the confidence of the public, but also to execute our mission. Customs workforce is consistent with future workforce trends that forecast increasing employment of women and minorities. Efforts to increase the diversity of the workforce (e.g., targeted recruitment) will continue, along with our efforts to understand and effectively manage the cultural differences of our customers and employees.

The table to the right provides Customs workforce data for FY 1990 and FY 1999. Over the span of a decade, the number of women and minorities in the Customs workforce has continued to increase. Since 1990, the representation of women in the Customs workforce has increased by 18.6 percent as compared to 5.8 percent for men, while the total workforce increased by only 10 percent.

Minority representation, particularly Hispanics, has increased significantly during the past decade. Minorities, as a whole, increased by 39.6 percent while the overall Customs workforce increased by only 10 percent.

## Organizational Structure of the Customs EEO Program

An effective Equal Employment Opportunity (EEO) Program is critical to the agency's overall success. During FY 1999, Customs allocated additional resources to the EEO program and reorganized the EEO Office which provides service to Headquarters employees on a wide range of issues including, but not limited to, complaint matters and EEO training initiatives. The new structure distinguishes between policy and operational work, and contains three principal divisions. The Complaints Processing Division is responsible for implementing and establishing policies related to discrimination complaints and measuring Customs performance in the area of complaints processing and conflict management. The Compliance, Analysis, and Special Programs Division implements and establishes policy relative to affirmative employment and special emphasis programs, and conducts special studies. In addition to increased staff at Headquarters, principal field locations will have an onsite EEO practitioner to provide advice and guidance.

## Customswide Reprisal Study

Over the past several years, reprisal has been the principal basis for the filing of a large number of EEO complaints. To address this trend, Customs has contracted with an outside consultant to conduct an assessment to analyze allegations of reprisal within Customs. This study will provide Customs additional perspectives relative to reprisal, propose recommendations to increase the integrity of the EEO complaint process, propose recommendations to minimize perceptions of reprisal, and recommend safeguards to insulate complainants or other participants from recrimination.

## Mediation

Customs and the National Treasury Employees Union implemented an Alternative Dispute Resolution (ADR) procedure for processing EEO disputes. The process, which became effective for FY 2000, offers a variety of contemporary ADR methods, including mandatory mediation, optional panel reviews, and binding arbitration.

In addition, changes to the federal sector complaints processing regulations will require all federal agencies to establish and offer an ADR process for both the informal and formal stages by January 1, 2000. To comply, Customs will use mediation as we believe it will best serve our requirements. Customs established an internal cadre of collateral duty mediators, trained and certified through the Justice Center of Atlanta, to participate in the mediation process.

**Comparison of National Workforce  
By Gender/Race  
FY 1990 Versus FY 1999**

|                 | FY 1990<br>NUMBER | FY 1999<br>NUMBER | CHANGE<br>(+ OR -) |
|-----------------|-------------------|-------------------|--------------------|
| <b>Women</b>    | <b>6,097</b>      | <b>7,230</b>      | <b>+1,133</b>      |
| <i>White</i>    | 3,816             | 4,252             | <b>+436</b>        |
| <i>Black</i>    | 1,272             | 1,433             | <b>+161</b>        |
| <i>Hispanic</i> | 721               | 1,177             | <b>+456</b>        |
| <i>AA/PI</i>    | 241               | 321               | <b>+80</b>         |
| <i>Aml</i>      | 19                | 38                | <b>+19</b>         |
| <i>NHPR</i>     | 28                | 9                 | <b>-19</b>         |
| <b>MEN</b>      | <b>12,422</b>     | <b>13,142</b>     | <b>+720</b>        |
| <i>White</i>    | 9,669             | 9,093             | <b>-576</b>        |
| <i>Black</i>    | 798               | 875               | <b>+77</b>         |
| <i>Hispanic</i> | 1,525             | 2,516             | <b>+991</b>        |
| <i>AA/PI</i>    | 332               | 502               | <b>+170</b>        |
| <i>Aml</i>      | 62                | 108               | <b>+46</b>         |
| <i>NHPR</i>     | 36                | 48                | <b>+12</b>         |

Figures include part-time permanent and wage grade employees.

AA/PI - Asian American/Pacific Islander

Aml - American Indian

NHPR - Non-Hispanic Puerto Rican

## Did you know?

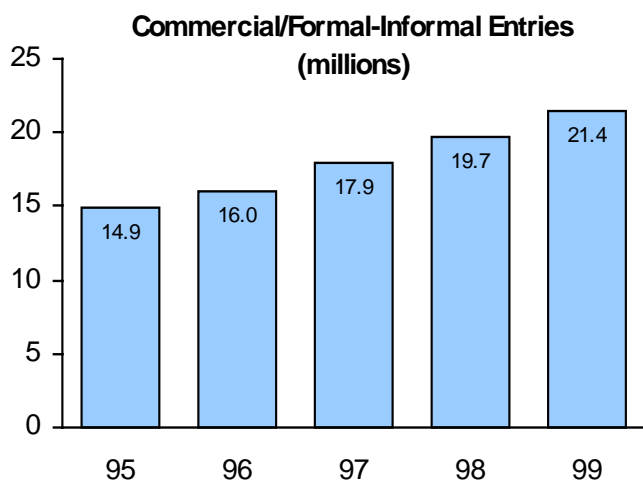


In 1947, Kathleen I. Dixon, became the first female inspector in Miami, Florida, and the first woman to wear a Customs uniform.

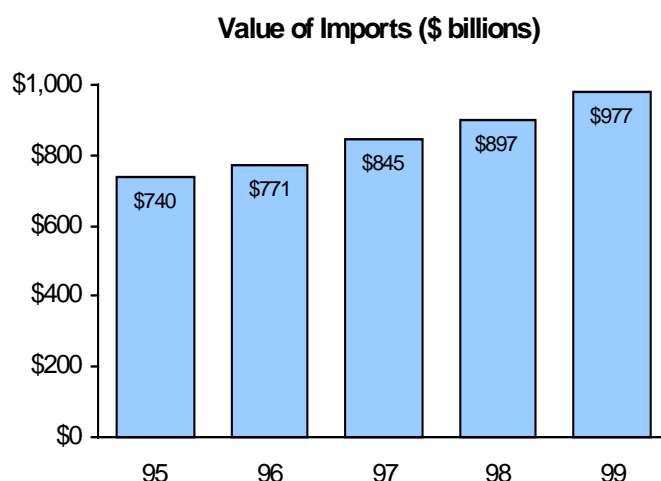


## Workload (FY 1995 - FY 1999)

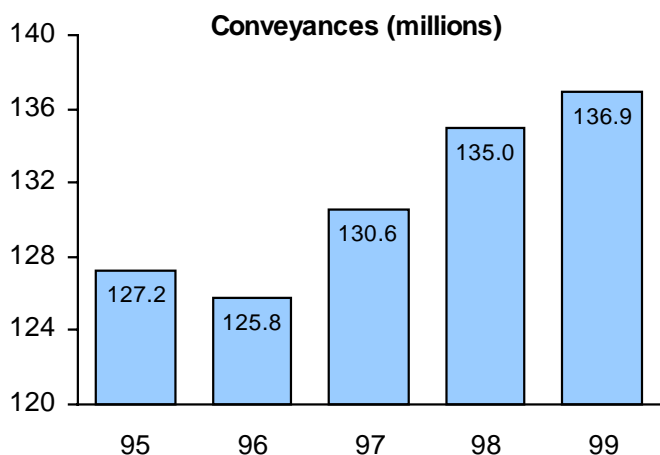
Customs officers processed 1.7 million more entries in FY 1999 than in FY 1998, an increase of 8.6 percent. The value of imports rose from \$897 billion in FY 1998 to \$977 billion in FY 1999, or 8.9 percent above last year. There were 137 million conveyances processed by Customs for FY 1999; 1.9 million more than FY 1998, a 1.4 percent increase. Customs processed 480 million passengers for FY 1999; an increase of 20 million passengers over FY 1998, a 4.3 percent increase. The increase was largely due to more truck and noncommercial vehicle passengers at land border ports.



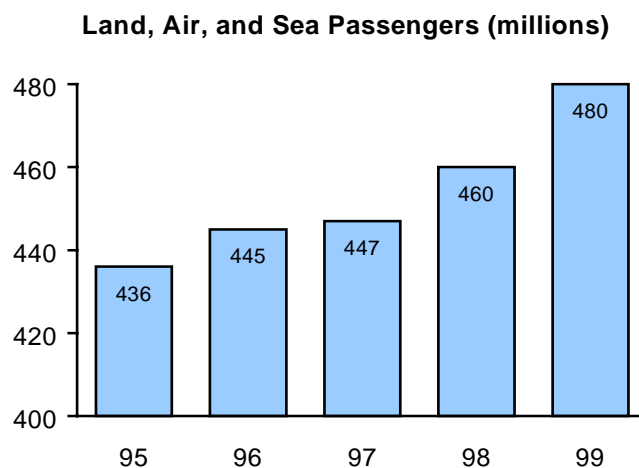
Figures represent combined formal and informal entry summaries from Customs Automated Commercial System.



Data supplied by Bureau of the Census including only formal commercial entry summaries for consumption. The 1995 figure is based on calendar year data.

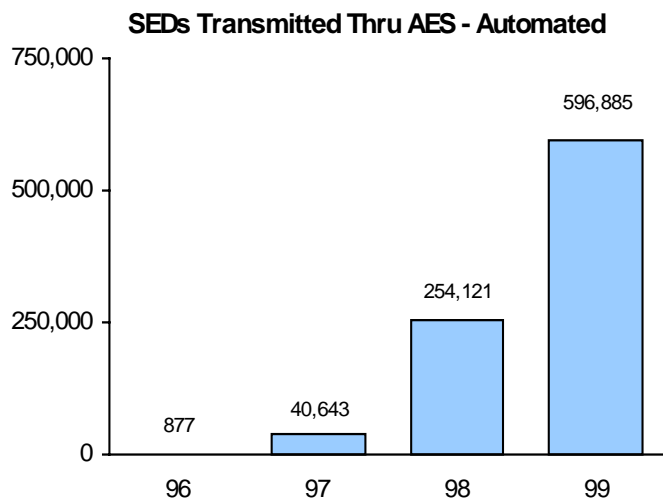


Conveyances include commercial, preclearance, and private aircraft; trucks; trains; buses; privately-owned vehicles; and ocean vessels. FY 1995 data has been provided through means outside of Customs current automated systems. Accordingly, this data was compiled and/or estimated from other existing manual records.





For export workload, Customs has included the number of Shipper's Export Declarations (SEDs) transmitted through the Automated Export System (AES). At the end of FY 1999, the number of SEDs filed through AES increased 135 percent, compared to FY 1998. We anticipate this will result in a further surge in AES SED processing. Beginning in FY 2000, all automated filing of export information must be reported through AES.



Data reflects SEDs transmitted to Customs via AES.



Data reflects declarations handled by Customs.

## Informed Compliance

Importing goods, exporting goods, or preparing for a foreign trip can be a daunting task. Knowing or finding the different laws and regulations that apply to each activity has been difficult or overwhelming to many. As a consequence, many violations uncovered by Customs officers are due to a lack of understanding or ignorance of the requirements. Customs, in cooperation with the trade and travel communities, has conducted numerous programs over the last several years to educate importers, exporters, and travelers. Additionally, steps were taken to make information more readily available to them. This approach, over time, is designed to reduce the number of unintentional violations Customs must process. The reduction in unintentional violations will allow Customs to redirect resources to identify smugglers and deliberate violators of Customs regulations and other federal agency laws.

Customs continued its efforts to improve compliance by providing additional information to the importing trade community. One of the major features of informed compliance is the binding rulings program. In FY 1999, Customs issued over 12,000 separate binding rulings to importers, primarily on such subjects as tariff classification, customs valuation and country of origin. Subsequently, 90 percent of those rulings were issued to the requester within 30 days. In order to assist importers in correctly entering their merchandise, all of these rulings are available to the public on the Customs web site. Customs also issued 11 Informed Compliance Publications in FY 1999 covering a number of complex product areas, and posted these general guidelines on the web site as another tool to be used in raising importer compliance.

## Trade Compliance (Imports)

The world is experiencing an explosion in trade, with total imports at \$977 billion in FY 1999, projected to reach \$1.04 trillion in FY 2000 and \$1.40 trillion by 2005. In addition, the explosive growth in the use of the Internet and electronic commerce has major implications for the international trade arena. The ease and convenience of shopping on the Internet continues to fuel more rapid growth in express consignment operator traffic with more first-time and occasional importers transacting their purchases electronically. (Violations of intellectual property rights have already occurred and are expected to increase.)

Faced with this challenge of rapidly expanding trade, Customs has increased its informed compliance efforts with commodity-specific public outreach seminars, publications, and use of the Internet. Customs continues to improve and add to its web site, [www.customs.gov](http://www.customs.gov). Newly redesigned, the official web site has been viewed by over 11 million visitors since its opening in August 1996. The site's new look features more visual impact, a more intuitive navigational scheme, and more information for the import and export community and international travelers alike. The web site now welcomes approximately 40,000 visitors a day.



Importers can help satisfy their responsibility for compliance by attending the Customs meetings and seminars and applying the information. They can also use special programs that provide them with the necessary information to make compliant entries, even before the merchandise is shipped to the United States. The major preimportation advice programs are the Preimportation Review Program and binding rulings. Preimportation advice usage increased by 12 percent in FY 1999.

## Passenger Processing

A variety of Customs personnel such as port directors, chief inspectors, supervisors, inspectors, and canine enforcement officers are involved in outreach activities at ports of entry. These individuals make outreach presentations to school groups, chambers of commerce, civic organizations, travel clubs, airline and cruise line associations, and other audiences to ensure their awareness of Customs and other agency requirements in advance of their return from trips abroad. One group of Customs officers called Passenger Service Representatives (PSRs) account for a large number of outreach activities at 17 major international airports. Currently numbering 39, these PSRs also frequently meet with airline and cruise line managers, ground support agents, and other port personnel to ensure open lines of communication and promote informed compliance. In FY 1999, PSRs were involved in 1,504 meetings and 1,127 outreach engagements. Passenger information is also available on Customs web site and at 35 self-service computer kiosks located at 15 major international airports.

## Outbound (Exports)

The Bureau of the Census continues to require more accurate export statistics. Over the last several years, Customs has worked with Census to improve the data collection process and data quality. Customs has conducted workshops around the country to educate exporters and shippers on export laws, rules, regulations, and port procedures. Most of Customs workshops and outreach occurred during FY 1997 and FY 1998. These years were the initial phase of Customs informed compliance efforts. During FY 1999, Customs efforts focused on targeting those individuals and companies that had not been reached during the first 2 years of the program which accounts for the significant percentage declines in the outbound process as noted in the table below. In addition, individual contacts have been made with freight forwarders and consolidators, exporters, and carriers to discuss general and specific exporting issues. Customs has been negotiating with the shippers and carriers to identify baseline data for Census as well as working with the export community and Census to improve the data quality of AES by using data edits.

| Informed Compliance Activities |         |              |         |              |          |              |
|--------------------------------|---------|--------------|---------|--------------|----------|--------------|
| Passenger Processing           |         |              |         |              |          |              |
| Type                           | FY 1998 |              | FY 1999 |              | % Change |              |
|                                | Number  | Participants | Number  | Participants | Number   | Participants |
| Outreach Visits                | 1,045   | 48,063       | 1,127   | 56,350       | 8%       | 17%          |
| Seminars                       | 256     | 1,457        | 1,504   | 9,024        | 488%     | 519%         |
| Kiosks                         | 35      | 210,000      | 35      | 232,000      | 0%       | 10%          |
| Other                          | 356     | 335,000      | 584     | 408,800      | 64%      | 22%          |
| Outbound                       |         |              |         |              |          |              |
| Outreach Visits                | 2,225   | 3,322        | 1,393   | 1,708        | -37%     | -49%         |
| Workshops                      | 198     | 5,021        | 73      | 409          | -63%     | -92%         |
| Internal Training              | 428     | n/a          | 54      | n/a          | -87%     | N/a          |

Figures in this table were based on estimates.

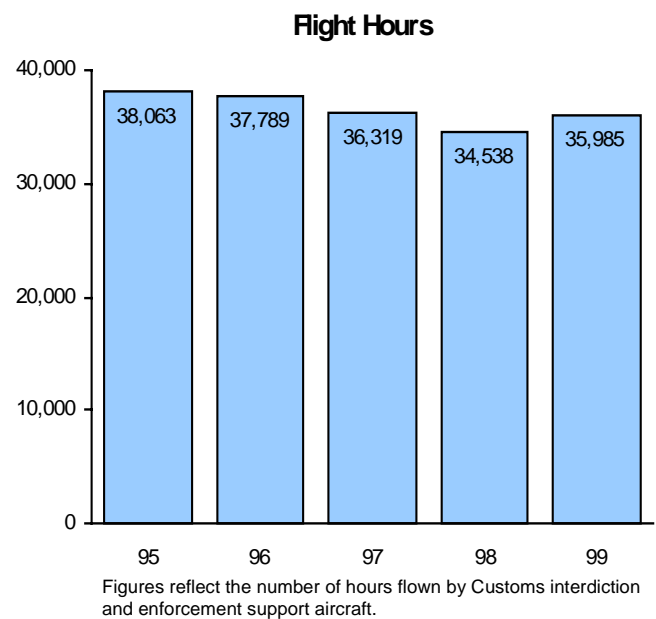
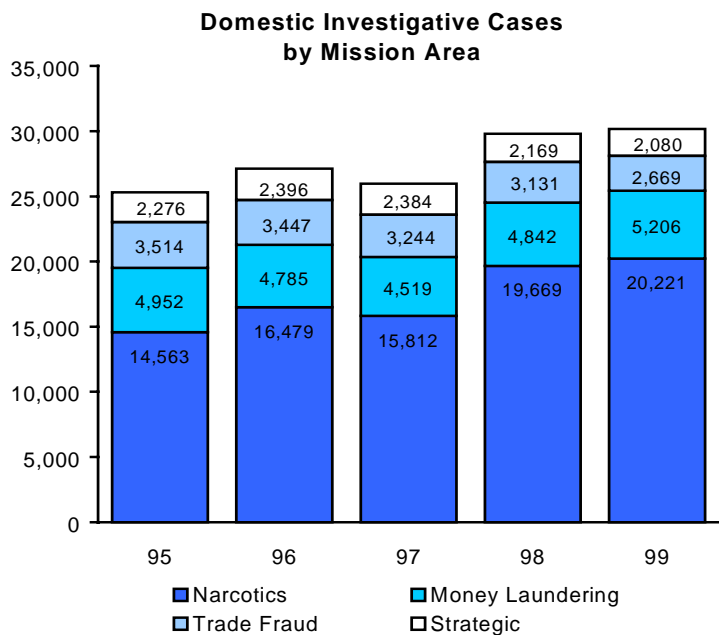




## Enforcement Systems

Domestic investigative cases remained nearly constant in FY 1999. Investigative cases overall rose by 365, or 1.2 percent over last year. The number of agents handling these cases declined by about 3 percent in FY 1999.

Flight hours increased by 1,447, or 4 percent, to 35,985. This increase is attributed to a variety of factors, such as, crew availability, maintenance, and external utilization decisions.



Customs Citation patrolling the Arizona/Mexican Border.



## Results/Outputs (FY 1995 - FY 1999)

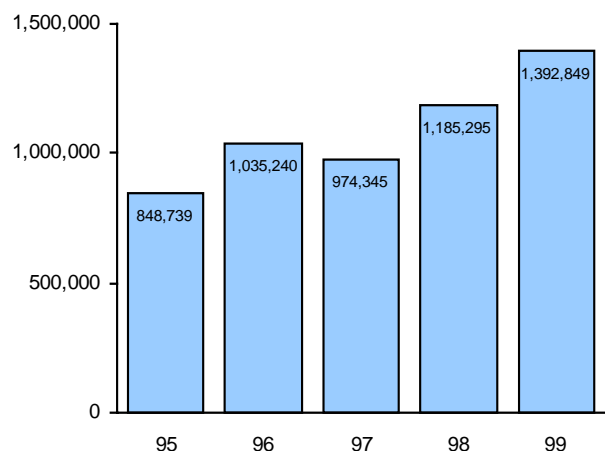
Customs continues to be the primary drug interdiction agency in the Federal Government, often seizing or assisting in the seizure of more narcotics than all the other federal agencies combined. The quantity of narcotics seized in FY 1999 set another record for Customs. Customs seized 160,353 pounds of cocaine, 1,147,591 pounds of marijuana, 1,919 pounds of heroin, and a total of 82,986 pounds of hashish, opiates, khat, and methamphetamine. The total weight of narcotics seized was 1,392,849 pounds, an increase of 207,554 pounds which was 17.5 percent above FY 1998 statistics.



Customs San Diego Special Response Team in ready position.

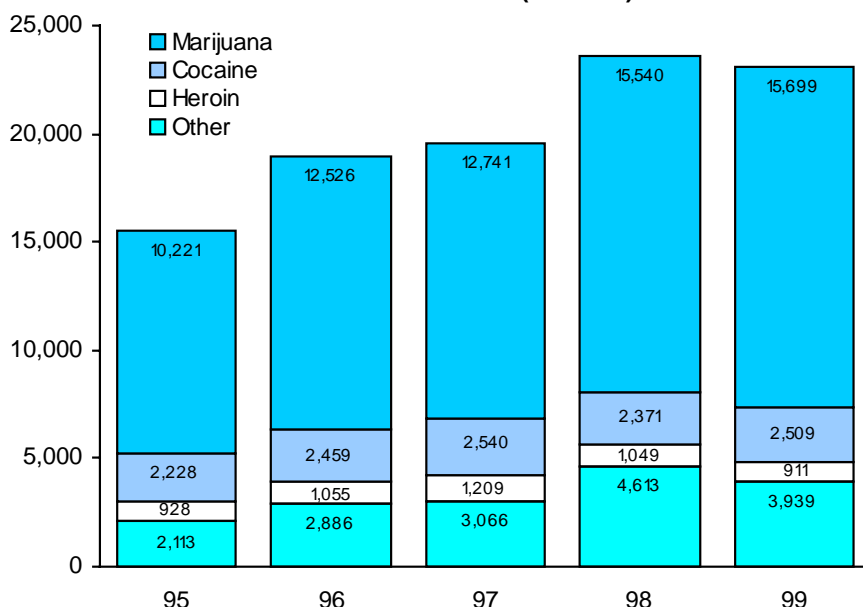
Customs made 2,509 cocaine seizures, 15,699 marijuana seizures, 911 heroin seizures, and 3,939 seizures of hashish, opiates, khat, and methamphetamine. The total number of narcotics seizures was 23,058, down by 515, or 2.2 percent, from FY 1998 (up 5.8 percent for cocaine, up 1.0 percent for marijuana, down 13.2 percent for heroin, down 14.6 percent for other drugs). The increase in the total quantity of narcotics seized is a result of various OI and OFO operational successes, maritime interdiction efforts, and Southwest Border initiatives during FY 1999.

Narcotics Seizures (pounds)



Includes seizures of Marijuana, Cocaine, Heroin, Hashish, Opiates, Methamphetamine, and Khat. Methamphetamine was not included in FY 1995. The FY 1998 figure was updated.

Narcotics Seizures (number)



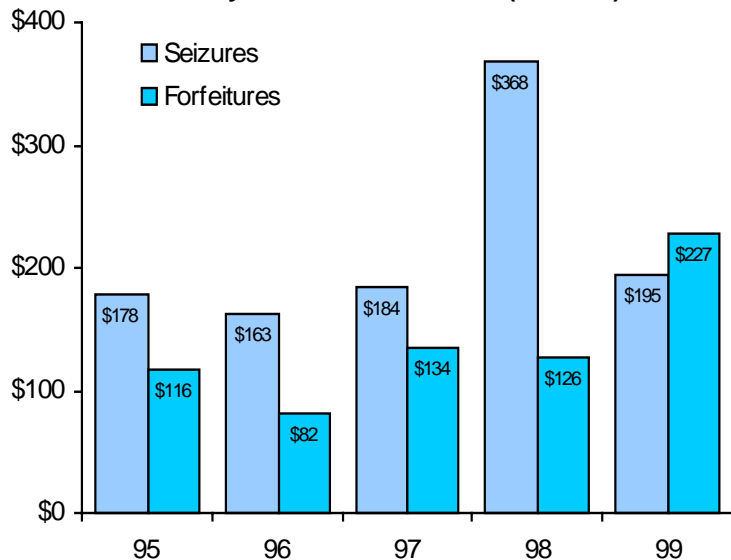
Other includes seizures of Hashish, Opiates, Methamphetamine, and Khat. Methamphetamine was not included in FY 1995. The FY 1998 figures were updated.



In the trade enforcement arena, Customs officers made 282 or 8.2 percent more copyright and trademark seizures than in FY 1998. Revenue collections remained stable at \$22.1 billion for the third year. At \$56.8 million, fines and penalties were just under last year's amount of \$57.4 million. Stolen automobile seizures have remained relatively constant since FY 1997, increasing by 49 to 2,158.

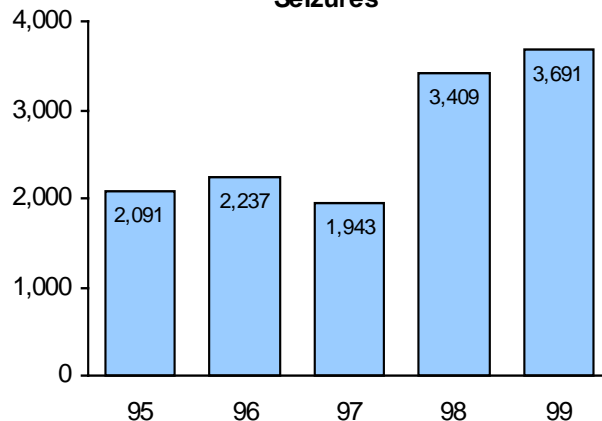
Monetary forfeitures increased by over \$100 million during FY 1999, primarily due to the forfeiture of the large amount of monetary seizures made during FY 1998. The monetary seizures were primarily the result of targeting previously unknown laundering cells that were discovered as part of Operation Casablanca.

**Monetary Seizures/Forfeitures (millions)**



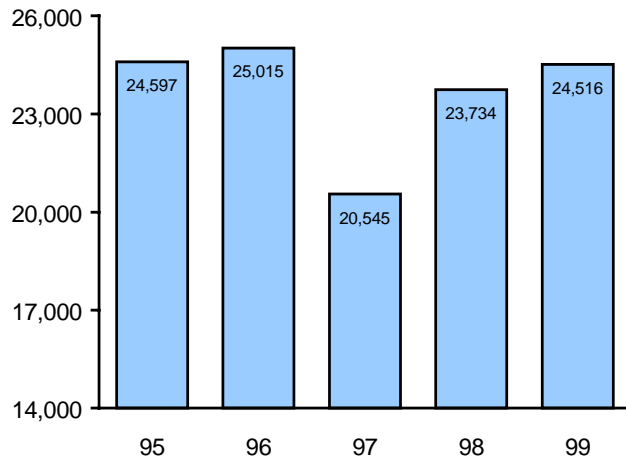
Represents all cash and monetary instruments seized and retained by Customs for final disposition.

**Copyright and Trademark Violation Seizures**



FY 1996 and 1997 figures were updated. FY 1998 and 1999 data derived from SEACATS, manually reviewed for relevance and accuracy.

**Total Arrests**

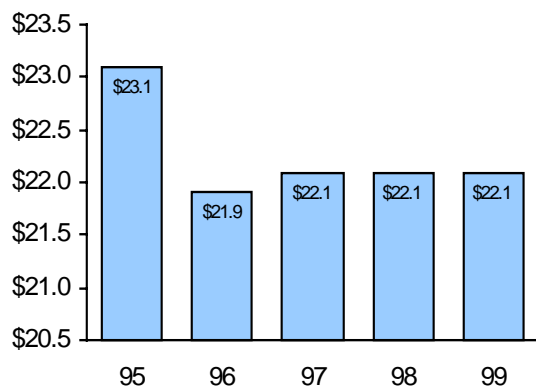


Customs P-3, with an Airborne Early Warning system, used to intercept suspect drug smugglers in low-flying planes.



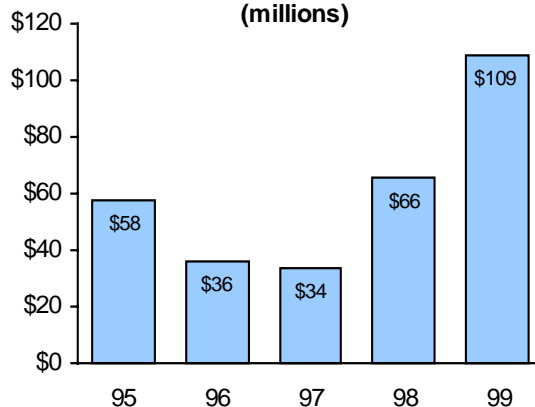
Customs collections can be broken down into three main categories: duties, Internal Revenue taxes, and other miscellaneous fees. Most of the collections consist of duties which, along with certain Internal Revenue taxes, are collected on all consumption goods, specified by the Harmonized Tariff Schedule, imported into the United States. Miscellaneous fees are collected on passengers, carriers, and entries coming into the country for such items as user fees, penalties, and interest. The major collections under this classification are user fees, which include merchandise processing fees and fees collected under the Consolidated Omnibus Budget Reconciliation Act (COBRA). The merchandise processing fees were designed to allow Customs to recover its cost of commercial operations while COBRA fees pay for inspectional overtime and requested enhanced service levels.

**Gross Revenue Collections (billions)**



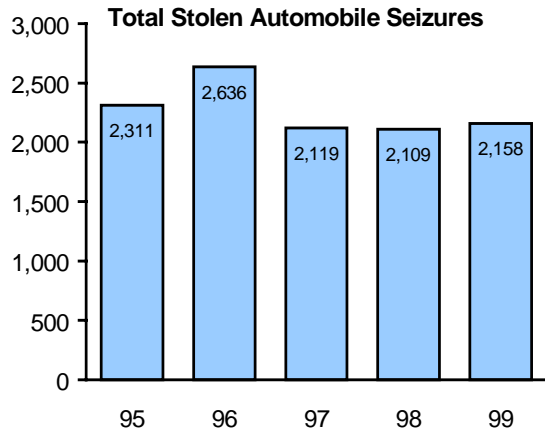
Includes tariff duty, user fees, Internal Revenue Service excise taxes, and other assessments.

**Asset Sharing for Law Enforcement (millions)**

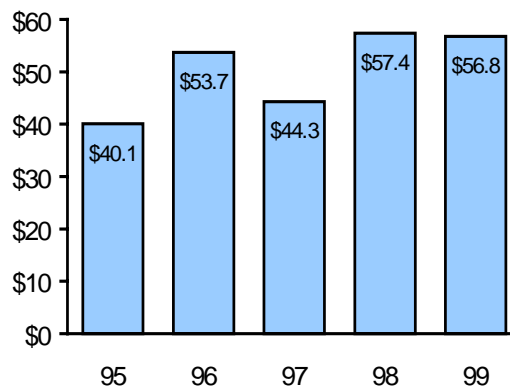


Figures represent cash, including assets liquidated for cash, distributed from the Treasury Forfeiture Fund to state and local law enforcement agencies who helped work on Customs cases.

**Total Stolen Automobile Seizures**



**Fines and Penalties Collections (millions)**



Point Loma, CA. Marine Enforcement Officers in one of Customs 30-foot utility vessels used to intercept suspect narcotics smugglers.



## Outcomes

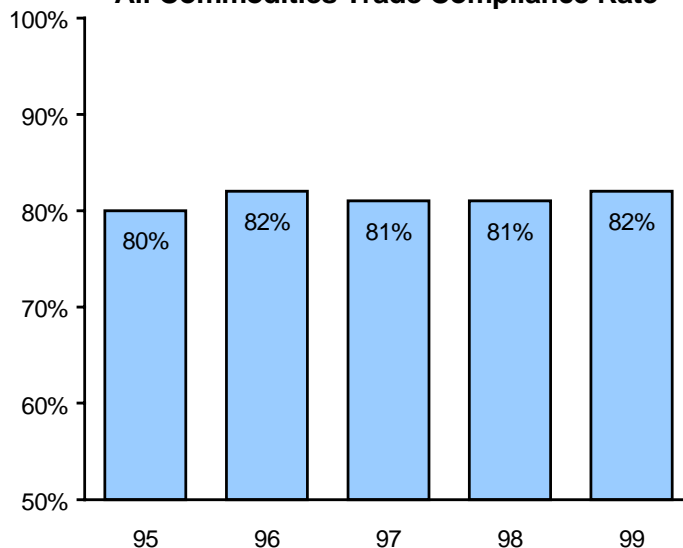
The Government Performance and Results Act requires agencies to identify outcome measures to portray the benefit the agency provides to the American public or other stakeholders. Customs has identified "the rate of compliance" with applicable U.S. laws and regulations as the primary outcome for its core processes -- trade, passenger, and outbound.

For narcotics enforcement, it has identified Drug Smuggling Organizations (DSOs) transportation costs, the fees charged by DSOs to transport cocaine into the United States, as its outcome measure. The purpose of this new measure is to help Customs identify the impact of Customs enforcement efforts on drug smuggling transportation costs and the consequence to wholesale drug prices. Baseline data for cocaine transportation costs was collected this year. Baseline data for the cost of laundering money (the outcome measure for our money laundering strategy) was also collected this year.

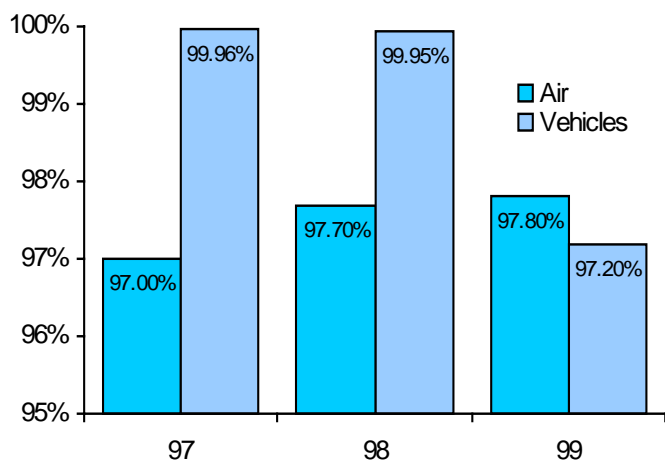
The Compliance Measurement Program, which started in 1995, uses random sampling to provide a statistical foundation for measuring commercial import compliance, and conversely, discrepancies. The Overall letter-of-the-law compliance for FY 1999 was 82 percent. At an 82 percent compliance rate, it is estimated that 25 million of the 30 million entry lines are compliant.

The air passenger compliance rate for FY 1999 was 98.2 percent, which means that of the 75.3 million arriving air passengers, arriving on commercial airline flights, 73.7 million were compliant. The 97.3 percent compliance rate at our land borders means that, of the 325.8 million land border passengers who crossed our borders in privately owned vehicles, 316.7 million were compliant.

**All Commodities Trade Compliance Rate**



**Air and Land Vehicle Passenger Compliance**



FY 1999 data includes Category 1 and 2 violations. FY 1997 and 1998 compliance rates for land vehicles is based only on Category One violations only.

***Did you know?***

In 1900, Mr. Walter L. Howell was appointed chief chemist and supervised a staff of three for Customs laboratory. The lab analyzed import merchandise such as raw sugars and molasses, to ensure that the quality was consistent with what the importing country promised to send. Today, there are seven laboratories, with the addition of research laboratories and mobile units that are equipped to test all chemical and physical types of commodities, narcotics and other controlled substances.





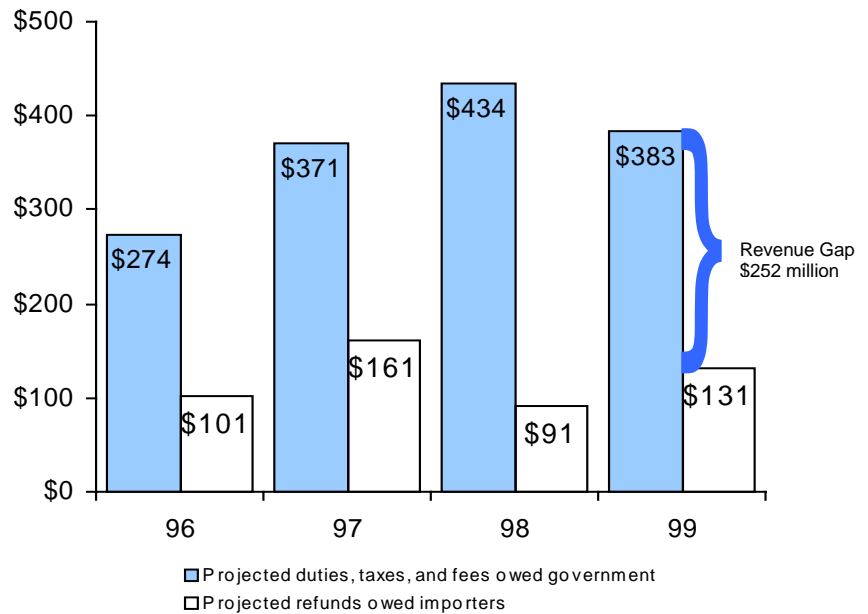
## Revenue Gap

The Revenue Gap (\$252 million in FY 1999) is the estimated net amount owed the government for noncompliant filings of consumption entries. Thus, the Revenue Gap is the estimated amount for projected duties, taxes, and fees (\$383 million) that are owed the government on consumption entries, less the estimated amount for projected refunds (\$131 million) owed importers by the government. The Revenue Gap amount does not account for moneys that are lost due to illicit activities (e.g., goods which may be smuggled outside ports of entry), additional collections resulting from other than compliance measurement examinations, or refunds after liquidation for special programs such as the North American Free Trade Agreement (NAFTA).

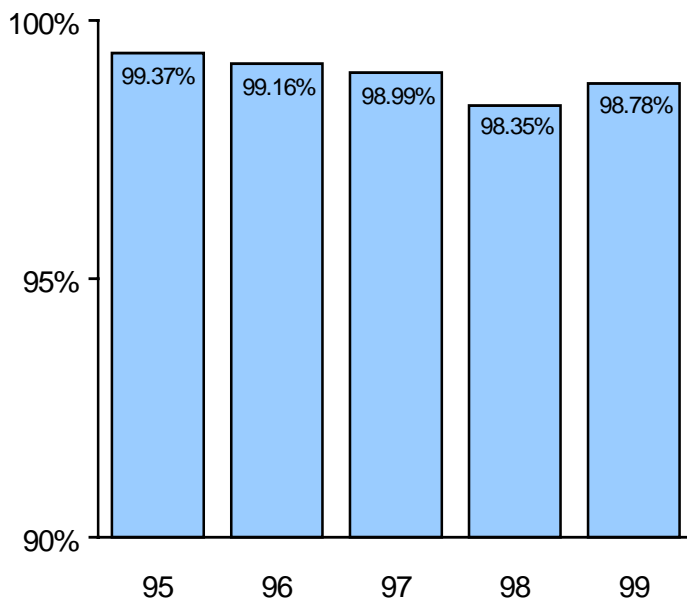
In FY 1999, of the potential revenue from consumption entries of \$20.6 billion (\$20.4 billion in actual collections + \$252 million Revenue Gap), 1.22 percent was due to the Revenue Gap. This equates to a Revenue Collection Compliance Rate of 98.78 percent.

Analyzing the components of the Revenue Gap shows that Footwear, Harmonized Tariff Schedule (HTS) Chapter 64, comprised the largest amount at \$45 million. Mechanical Apparatus, HTS Chapter 84, and Special Class Provisions, HTS Chapter 98, comprised the second and third largest amounts at \$38 million and \$29 million, respectively.

Revenue Gap Components (millions)



Revenue Collection Compliance Rate



The Revenue Gap is used by Customs along with the trade compliance data to assess areas that can be targeted for improved compliance and to support informed and enforced compliance activities within the trade community. However, since the Revenue Gap is only a statistical estimate and is relatively imprecise, Customs does not recognize it as a receivable or use it to identify, collect, or refund specific amounts.

There are two major reasons why the Revenue Gap may not be reliable: 1) The revenue changes are usually small even though the sample size for many of the HTS chapters are large; and 2) The variability of the revenue change is large when it does occur. However, continued improvements in the collection, analysis, and tracking of revenue data at the ports make the Revenue Gap estimate more precise each year.



## FY 1999 Annual Performance Goals/Results

### Overall Mission Performance

In the enforcement area, Customs seized a record amount of narcotics in FY 1999, due in part to several successful special operations. Customs continued its efforts to enhance cooperation and intelligence sharing with federal, state, local, and international law enforcement agencies through the operation of two new centers -- the Customs Money Laundering Coordination Center (MLCC) and the Forced Child Labor Command Center -- as well as through increased support to outside agency initiatives in the areas of export-controlled materials and stolen property. To compliment its efforts combating child pornography on the Internet, in FY 1999 Customs established a special unit to focus on other "cyber" crimes.

In the trade area, Customs continued its efforts to modernize its commercial systems and improve its efforts to educate companies on importing and exporting cargo and merchandise in conformity with existing laws and regulations. This included continuation of existing, and implementation of new, automated programs and prototypes such as:

Reconciliation, Remote Location Filing, and the National Customs Automation Program (NCAP) Prototype. Recognizing the need to balance better enforcement of trade laws with the increasing demand for facilitation of cargo and reducing costs of compliance with the reality of rapidly expanding trade, Customs has started implementing a systematic risk management process.

This risk management process is a four-step methodology that assists Customs in identifying those imports that represent the greatest risk of non-compliance and focusing our resources in those areas. Established Customs programs such as compliance measurement, compliance assessment, account management, and Enforcement Evaluation Teams are critical components of this risk management process.



Miami, FL, Customs Officers x-ray cargo using one of Customs x-ray vans.

Customs continues to support the Administration's efforts in promoting more transparency in the procedural requirements for international trade by participating in international trade forums. These include the Free Trade Area of the Americas negotiations, the Asian Pacific Economic Cooperation, and expansion of the Caribbean Basin Initiative. The results of these efforts are set forth below.

### Enforcement Systems

Enforcement Systems strategies encompass Narcotics, Money Laundering, Trade Fraud, Strategic Investigations, and Cybersmuggling. Enforcement systems activities complement those of Customs core business processes by focusing on the willful violator and identifying and dismantling organizations used to facilitate international crimes and the persons involved. The common goal of all Customs Enforcement Systems strategies is to disrupt the individuals, organizations, and the methods used to violate laws enforced by Customs.

**Narcotics:** During FY 1999, Customs seized or assisted in the domestic seizure of 1,392,849 pounds of narcotics. The quantity of narcotics seized rose by 207,554 pounds, or 17.5 percent, above FY 1998. Additionally, the quantities seized increased 1.8 percent for cocaine, 20.1 percent for marijuana, 19.4 percent for other drugs, and the quantity of heroin seized declined by 30.5 percent.

The increase in the total quantity of narcotics seized is a result of various operational successes during FY 1999. Operation Conduit is a joint effort by Customs, the Drug Enforcement Administration (DEA), Thailand, the United Kingdom Customs Service, and the Chicago Police Department to vigorously attack the West African heroin smuggling problem. Thus far, Customs has initiated 20 heroin investigations with global implications, seized 65 pounds of heroin with a street value of \$60 million, and made 35 arrests.



Customs and DEA conducted Operation Ramp Rats/Skychef to target corrupt airline luggage ramp and cargo employees who diverted shipments of narcotics from arriving flights from South America at Miami International Airport. To date, approximately 72 airport employees have been arrested or indicted for their involvement in the diversion of narcotics shipments, conspiracy to possess with intent to distribute cocaine, and/or conspiracy to import a controlled substance.

Operation Orion is a joint effort by Customs, the Royal Canadian Mounted Police, DEA, Immigration and Naturalization Service (INS), Border Patrol, and local sheriff offices to address the proliferation of smuggling between the ports of entry in eastern Washington and northern Idaho. Results include the establishment of an intelligence distribution network, the seizure of 1,157 pounds of marijuana, 40 arrests, and the seizure of \$680,000 and 9 vehicles.

**Money Laundering:** In FY 1999, Customs built a sophisticated infrastructure to address the key business and payment systems, identified by Operation Casablanca and other undercover operations, being exploited by international criminal organizations. The focus was on the Black Market Peso Exchange (BMPE). As the primary international trade mechanism being used to facilitate the movement of illegal proceeds, the BMPE has become embedded into international commerce, depriving countries of tax revenues and skewing trade statistics.

The MLCC was directed by Treasury to be the nucleus for all intelligence gathering and industry outreach on the BMPE. The MLCC is the only U.S. government entity tracking the BMPE and figures prominently in the Treasury National Money Laundering Strategy. MLCC educated Customs offices on the impact of the BMPE laundering process, enabling them to then educate the multinational business community. Customs also engaged in cooperative efforts with Treasury, Internal Revenue Service, the Financial Crimes Enforcement Network, and others, to design strategies to disrupt and dismantle the BMPE. These efforts are ongoing and provide a global impact. Significant foreign revenues are now being recovered by foreign economies representing a significant part of their gross national product.



Operation Ramp Rats/Skychef, Miami, FL. Seized drugs hidden in a Skychef cart designed specifically for smuggling narcotics.

**Trade Fraud:** Investigative successes during FY 1999, include the opening of 720 textile smuggling and transshipment related cases which resulted in 20 arrests, 8 indictments, 11 convictions, 43 seizures and 1 penalty. In one such investigation, agents seized 43 containers of textiles and wearing apparel, valued at \$13 million, that were smuggled from China. Another investigation resulted in the seizure of 25 containers of textiles and wearing apparel, valued at over \$2 million, that were also smuggled from China. This seizure is part of an undercover operation where evidence was collected that identified suspects who smuggled from China, over 300 containers of textiles and wearing apparel, valued at approximately \$100 million. A third investigation, an undercover Intellectual Property Rights operation, culminated in the execution of 2 search warrants of storage facilities which resulted in the seizure of 530,000 pieces of counterfeit designer handbags and luggage valued at over \$20 million. Another textile investigation resulted in the conviction of an individual responsible for transshipping \$10.3 million in merchandise to avoid quota restrictions and duty payment.

In addition, OI established the Forced Child Labor Command Center, which acts as a clearinghouse for allegations of prohibited imports of forced labor products. The importation of goods produced by forced or indentured child labor places American consumers at risk of unwittingly supporting the exploitation of children worldwide. Additionally, an aggressive outreach program has been designed to educate manufacturers, importers, and the public and develops specific outreach efforts.

**Strategic Investigations:** The strategic investigations program deals with: 1) violations of U.S. laws involving trafficking by proliferant countries, terrorist groups and criminal organizations in sensitive and controlled commodities, including weapons of mass destruction (WMD) and related technologies, munitions, and firearms; 2) violations of economic sanctions and embargoes; and 3) the export of stolen property. In FY 1999, Customs increased liaisons and resource deployment dedicated to outside agency (the Federal Bureau of Investigation, State Department, and Commerce)



initiatives and the increasing number of requests from the State Department and other agencies for Customs training and training support, both domestically and abroad.

Investigative efforts beginning in prior years and continuing through FY 1999, resulted in significant disruption of international trafficking activities, especially in the areas of export controlled materials and stolen property. The following bullets highlight the impact of this effort:

- An investigation into a missile-related procurement to the People's Republic of China resulted in the indictment of two foreign nationals, the indictment of two foreign companies, and the seizure of seven fiber optic gyroscopes.
- A foreign national was sentenced to 5 years in prison for attempting to purchase and transfer stealth aircraft and anti-missile technology to China.
- Fines in excess of \$4 million were imposed against multiple companies for the illegal sale and subsequent transshipment of the Phalanx military weapon system to Pakistan.
- The discovery, investigation, and ultimate conviction of 3 people for a stolen vehicle export ring and the attempted illegal export of military aircraft and missile parts to Iran, resulted in a 16-count indictment, 2 arrests, a \$750,000 criminal fine and \$1.9 million in civil forfeitures.
- The illegal export of 20 night vision systems to Iraq valued at \$178,000 resulted in 1 arrest and conviction, a 37-month incarceration, and a \$6,000 fine.
- The illegal exportation of stolen vehicles to Europe resulted in the arrest, indictment, and conviction of 6 individuals and the seizure of 50 vehicles.
- Customs seized over \$180,000 of currency and there was a guilty plea by a U.S. citizen for violation of Trading with the Enemy Act of 1917 for multiple shipments of controlled fiber-optic telecommunications equipment bound for North Korea.

**Cybersmuggling:** Customs continues to aggressively pursue traffickers in child pornography, and those that commit other crimes through use of the Internet or other electronic media, by disrupting and dismantling the international organizations involved in these crimes. In FY 1999, Customs made 204 arrests related to child pornography, and provided training on how to conduct Internet child pornography investigations to over 1,000 foreign prosecutors, legislators, and law enforcement officers in over 12 foreign countries. In November 1998, a Cyber Crimes Unit was developed to focus on non-child pornography Internet crimes. Customs continued to enhance its computer forensics program by developing a technology infrastructure to better equip investigators of international Internet crimes. Thirty-four special agents were trained as Computer Investigation Specialists, giving Customs a total of 86 trained computer forensic investigators. At the close of FY 1999, Customs had over 120 open cyber crime investigations.

## Trade Facilitation

Customs continues to implement aspects of the Customs Modernization Act of 1993, including a second release of the NCAP Prototype, and new automation support for such programs as the Reconciliation Prototype and Remote Location Filing. Reconciliation is a major modernization initiative that is being used by more than 1,000 importers to file electronic consolidated amendments on their import entries.

The Account Management Program has grown to include over 700 national importer accounts and port accounts, far exceeding the projections for this program. Customs has increased its informed compliance efforts through use of commodity-specific public outreach seminars, publications, and expanded use of the Internet.

Customs continues to promote the move to more transparency in the procedural requirements for trade. In turn, these requirements will promote efficiencies such as the rapid release of goods through Customs. The negotiations of the Free Trade Area of the Americas, which started in the spring of 1999, will go beyond previous trade agreements to include Customs clearance procedures. In addition, Customs continues to work with the Asian Pacific Economic Cooperation negotiations, the expansion of the Caribbean Basin Initiative, as well as to work to bring African nations into the mainstream of market economies.





## Import and Export Compliance

To continually improve our Compliance Measurement and Compliance Assessment programs, we have incorporated "significance" and "materiality" into these programs using statistically valid and selective measures. This helps insure that Customs and the trade's resources are focused on the most important issues.

In 1999, Customs began implementing a four-step national Risk Management program to target areas posing the greatest threat of non-compliance. Established Customs programs such as compliance measurement, compliance assessment, account management, and enforce evaluation teams, are critical components of Customs Risk Management program. In 1999, Customs introduced the national Focus on Non-Compliance program that incorporates Risk Management principles.

In the outbound (export) arena, Customs continued its aggressive outreach efforts to heighten the trade community's knowledge of export laws, rules and regulations, and port procedures for all methods of transportation. For example, Customs provided 73 air and seaport compliance workshops, reaching 409 people from the export community, and also conducted 1,393 outreach visits, reaching 1,708 people. Surveys have been conducted at the Northern and Southern Borders to establish a baseline compliance rate for border export compliance.

In the outbound environment, Interest Based Negotiations between the trade and government resulted in the identification of enhancements to the AES during FY 1998. Regulations were published in 1999 to provide a sound export reporting program for commodity data, establish AES, and provide for electronic manifests. In cooperation with the sea carriers, enhancements to the vessel transportation module were developed in AES to provide increased transportation data for targeting potential violators and to ensure greater adherence to export requirements and business practices.

In an effort to assist in global compliance, Customs coordinated and delivered four Department of Defense/Customs counter-proliferation programs and 12 Project Amber counter-proliferation programs. In addition, two hands-on training courses on WMD border enforcement for mid- and upper-level managers were conducted at the new Counter-Proliferation Training Center in Richland, Washington.



Customs Seaport, Los Angeles, CA.





For instances of willful fraud or gross negligence, traditional enforcement methods were used. These methods include penalties, seizures, and, as appropriate, criminal prosecution. Customs focused on the interdiction of undeclared currency, stolen vehicles, munitions, dual-use materials with military applications, precursor chemicals, and the enforcement of embargoes against countries sanctioned for supporting terrorism. During FY 1999, the Federal Law Enforcement Training Center conducted four classes focusing on antiterrorism/aviation safety and security. Ninety inspectors from 20 airports attended the training. The Automated Targeting System/Antiterrorism (ATS/AT) was deployed at 12 major airports and 45 inspectors were trained in the use of the system. Twelve mobile x-ray vans were delivered to major airports. The joint-use x-ray vans and the ATS/AT were jointly responsible for 327 seizures and/or detentions of dangerous goods (hazardous materials) as defined by Federal Aviation Administration standards.

## Travel Facilitation

In the passenger environment, Customs tested pre-enrollment programs that permitted approved low-risk applicants to utilize Dedicated Commuter Lanes (DCL) at several land border ports. The DCLs help reduce congestion through the regular traffic lanes by allowing low-risk pre-registered vehicles and passengers to cross with little or no primary interaction with Inspectors. The General Aviation Telephonic Entry program continued to be tested, allowing pre-approved general aviation aircraft, pilots, and passengers to report their arrival from Canada telephonically and to proceed without inspection if not selected for a physical examination.

Passenger Service Representatives, who have been working in the airport environment for several years, were tested at land border ports to help inform the traveling public of Customs requirements, to address complaints timely, and to measure customer satisfaction with the passenger process. At major international airports, Customs now has 35 passenger information kiosks to assist travelers with commonly asked questions concerning Customs requirements, prior to their departure from the United States.

Customs met its customer service goal by processing 95 percent or more of compliant non-precleared air passengers within 5 minutes of baggage claim to exit. Moreover, Customs continued to work jointly with the INS to process compliant southern land border passengers within 30 minutes and compliant northern land border passengers within 20 minutes from the time the passengers entered the primary queue. In addition, Customs expanded the use of license plate readers at land border POEs to improve processing.

### *Did you know?*

In 1970, Customs, with cooperation from the Department of Defense, established the Detector Dog Program. The canines were to assist the Customs Officers in contributing to the seizures of drugs and other contraband at various ports of entry; such as airports, seaports, and border crossings. In 1974, because of the success of the detector dog program, the training facility was relocated from San Antonio, to Front Royal, Virginia. The land that the Front Royal facility rests on was formerly the Virginia Beef and Cattle Research Center and further dates back to the Civil War when it was a United States Calvary Remount Station. By 1980, the Detector Dog Program was renamed the Canine Enforcement Program. Today, there are 587 dog teams trained to detect narcotics and currency.



Customs Canine Enforcement Officer and his K-9 inspecting vehicles at San Ysidro, CA.



In accordance with the Government Performance and Results Act (GPRA), Customs has established a comprehensive series of performance goals. These goals are set at high levels in many cases to challenge the creativity of the organization. The development of performance goals and indicators will continue to be a dynamic process.

While Customs did not achieve every performance goal, it is important to remember that under GPRA, performance goals are merely points on which to focus. Performance goal shortfalls may be acceptable, as long as subsequent progress is made to achieve them or a genuine effort is made to determine why the goal was not reached. Where strategy and process performance goals are reached, Customs will establish new performance goals for the future. Where goals are not reached, Customs will continue to take steps to achieve them and, where necessary, adjust unrealistic goals.

## Narcotics

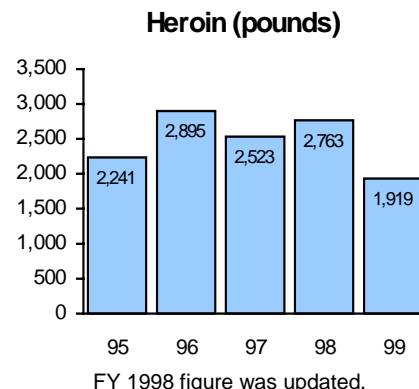
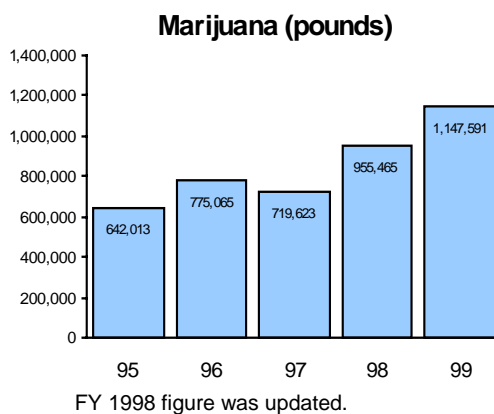
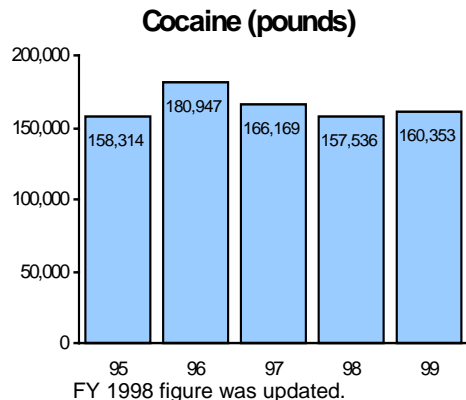
**Strategic Objective:** To reduce the flow of drugs across the U.S. border and disrupt and dismantle DSOs through unified intelligence, interdiction, and investigative efforts.

**Goal:** Seize at least 160,000 pounds of cocaine, 3,000 pounds of heroin, 805,000 pounds of marijuana.

**Measured Results:** Customs seized or assisted in the domestic seizure of 160,353 pounds of cocaine, 1,919 pounds of heroin, 1,147,591 pounds of marijuana.

The quantity of narcotics seized was up 207,554 pounds, or 17.5 percent, above FY 1998 (up 1.8 percent for cocaine, up 20.1 percent for marijuana, but down 30.5 percent for heroin). Customs exceeded its marijuana seizure (pounds) goals by over 43 percent. This success is due largely to enhanced Southwest Border, maritime interdiction and OI/OFO operational initiatives. Specifically, Customs conducted the Border Coordination Initiative with the INS and Frontline, a new and innovative approach to enforcement operations, which is the continuation of Operation Brass Ring. Also, the increase in seizures was due in part to Southern Frontier, a working group chaired by the Attorney General, who focused on the South Florida/Caribbean enforcement efforts.

Customs seized about one-third fewer pounds of heroin in 1999. In FY 1998, Customs seized the largest amount of heroin since 1993, primarily due to the identification and seizure of several large shipments of heroin. The decline in the amount of heroin seized in FY 1999 could be the result of traffickers reacting to our successes in FY 1998 by adjusting their tactics, reducing their load size, and changing their concealment methods.





**Goal:** Develop a baseline to measure DSO's transportation costs.

**Measured Results:** A "proof of concept" study was completed by Customs in February 1999 that suggested a causal relationship between the enforcement efforts of Customs and the fees charged by drug smuggling organizations to transport cocaine into the United States.

To validate and amplify the initial research, the Office of National Drug Control Policy sponsored a follow-up study by an independent contractor. During the summer of 1999, economists and statisticians reviewed over 14,000 Customs records that contained drug transportation cost data. This data, which spanned the last 10 years, was normalized and correlated with Customs resource allocations during that same period. Analysis has verified the original premise of a positive correlation between enforcement and transportation costs. However, additional analysis is needed to determine the interactions of various resources and the impact of Customs investigative and interdiction efforts.

**Goal:** Make at least 2,500 cocaine seizures, 1,250 heroin seizures, 14,000 marijuana seizures.

**Measured Results:** Customs made or assisted in making 2,509 cocaine seizures, 911 heroin seizures, and 15,699 marijuana seizures.

Customs exceeded its goal for marijuana seizures by 12 percent, met its goal for cocaine seizures and was under its goal for heroin seizures by 27 percent. The total number of narcotics seizures was 23,058, down by 515, or 2.2 percent, from FY 1998 (up 5.8 percent for cocaine, up 1.0 percent for marijuana, down 13.2 percent for heroin). The increase in the number of marijuana seizures is due largely to enhanced Southwest Border and maritime interdiction such as the Border Coordination Initiative and the follow-up to Operation Brass Ring. The average marijuana seizure was 77.6 pounds, which was above last year's average of 61.5 pounds and above the 5-year average.

The decline in the amount of heroin seized in FY 1999 could be the result of traffickers reacting to our successes in FY 1998 by adjusting their tactics, reducing their load size, and changing their concealment methods.

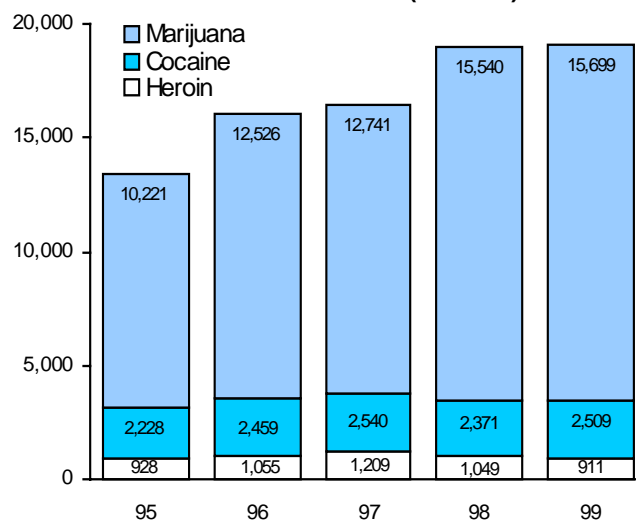
**Goal:** Seize at least 15,000 pounds of cocaine and at least 1,500 pounds of marijuana from transit zone efforts.

**Measured Results:** Customs seized 11,248 pounds of cocaine and 2,225 pounds of marijuana from transit zone efforts.

Most of the seizures were in the Bahamas (due to an increased Law Enforcement Agency presence), Mexico, and Guatemala. The Guatemalan police were very responsive to air targets, and have made seizures "after-the-fact."

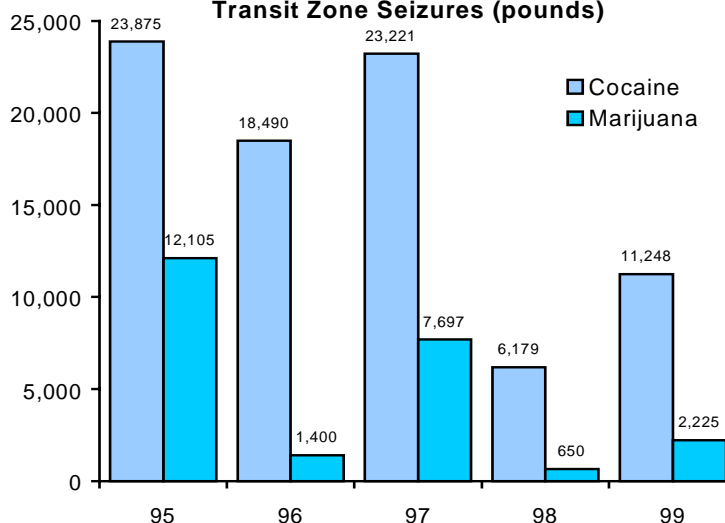
We fell short of our cocaine seizure goal primarily for one reason. The Joint Interagency Task Force (JIATF)-East uses Customs primarily against air targets. Customs, however, understands that most of the cocaine moving through the transit zone is moving on board maritime vessels. We see that as our challenge for the next year.

**Narcotics Seizures (number)**



FY 1998 figures were updated.

**Transit Zone Seizures (pounds)**





Customs will encourage JIATF-East to employ us where we can maximize our effectiveness in both air and maritime movement, and cause the maximum disruption possible. This should result in Customs improving its seizures at or near Haiti.

The Customs Air and Marine Interdiction Division is successful in detecting and monitoring air movement throughout the Transit Zone, including the Caribbean. Seizures of narcotics in this area, however, remain low, because of limited host-nation resolve and available assets (e.g., interdiction forces). Host-nation resolve is defined as the level of commitment of a foreign nation to support U.S. counter-narcotics efforts. With increased host-nation resolve, it is expected that narcotics seizures in the Caribbean would increase significantly, thereby forcing the narcotics traffickers to consider changing modes of transportation (e.g., land movement) or shifting their routes to other geographic locations.

## Money Laundering

**Strategic Objective:** To identify and disrupt the systems and criminal organizations that launder proceeds generated by smuggling, trade fraud, and export.

**Goal:** Develop a baseline for costs for criminal organizations to launder money.

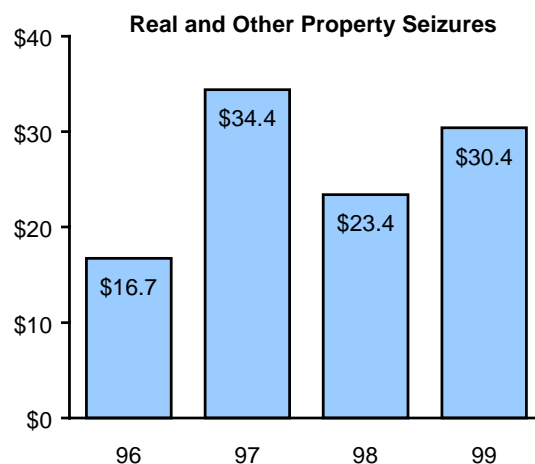
**Measured Results:** The baseline has been delineated among two lines: 1) Movement of bulk currency; and 2) pick up operations. The average cost, measured as a percentage of the total amount being laundered, was determined to be approximately four percent for bulk currency and eight percent for pick up operations nationally.

As the baseline was developed during FY 1999, there are no results to report how Customs enforcement activities have affected these percentages. In FY 2000, plans are to complete a Cost of Doing Business Study with respect to money laundering. The findings will enable Customs to determine how to place resources and concentrate on employing those techniques that are most successful.

**Goal:** Seize at least \$37.5 million in real and other property as a result of money laundering investigations.

**Measured Results:** Customs officers seized or assisted in the domestic seizure of \$30.4 million in real property in association with financial crime investigations.

While the amount in real property seizures is below the FY 1999 goal, it is 30 percent above last year's amount. The actual amount for FY 1998, which was previously reported as \$16.0 million, has been updated to \$23.4 million. Due to the conclusion of Operation Casablanca, the largest narcotics money laundering investigation conducted in the history of U.S. law enforcement, the lower 1998 totals for real property seizures were an anomaly. The 30 percent increase above last year's amount is due to the residual effects of Operation Casablanca because judicial forfeitures were completed in 1999. All of the gains expected from expanding the Asset Identification and Removal Groups (AIRG) to every Special Agent-in-Charge office were not realized in FY 1999, but should be fully realized in FY 2000.



**Goal:** Seize at least \$280 million in total monetary instruments.

**Measured Results:** In FY 1999, Customs seized, or assisted in the domestic seizure of a total of \$329.7 million in monetary instruments, about 18 percent above our goal of \$280 million.

We believe this increase to be the result of several factors: 1) after effects of Operation Casablanca, which have allowed Customs to target previously unknown laundering cells, enabling a surge of money laundering investigations; 2) the AIRG's maturation in their development and capabilities, and expansion to all 20 Special Agent-in-Charge offices; and 3) successes in undercover enforcement operations, combined with the regulatory pressures of Geographic Targeting Orders, which have forced criminal organizations to use less secure and vulnerable laundering systems, such as bulk currency smuggling, to move illegal proceeds out of the United States. Outbound currency seizures alone continued their 2-year upward trend in FY 1999, with 1,483 seizures totaling \$60.5 million.



## Trade Compliance

**Strategic Goal:** Maximize trade compliance utilizing a risk management approach, enabled by a modern infrastructure and increased transparency.

**Strategic Objectives:** A) Complete the process redesign and implement the Customs Modernization Act. B) Implement innovative programs designed to increase compliance. C) Administer and enforce NAFTA and other trade agreements. D) Increase international cooperation. E) Improve fiscal management of the trade compliance process to support the CFO Act.

Customs continues to make progress in raising overall trade compliance. The Overall letter-of-the-law compliance for FY 1999 is 82 percent. In 1998, to better focus compliance improvement efforts, Customs introduced the concept of significance in defining discrepancies found in our Compliance Measurement program. With significance factored in, the FY 1999 compliance rate is 90 percent compared to the FY 1998 significance rate of 89 percent. Based on major transactional discrepancies (i.e., significance factored in) we have reached our goal of achieving 90 percent overall compliance.

The overall PFI letter-of-the-law compliance for FY 1999 is 85 percent. With significance factored in, the overall PFI rate is 91 percent. These rates improved by one percent compared to FY 1998. Projections based upon compliance data from FY 1995 to the present, indicates that Customs will reach the overall PFI significance compliance rate of 95 percent by FY 2004.



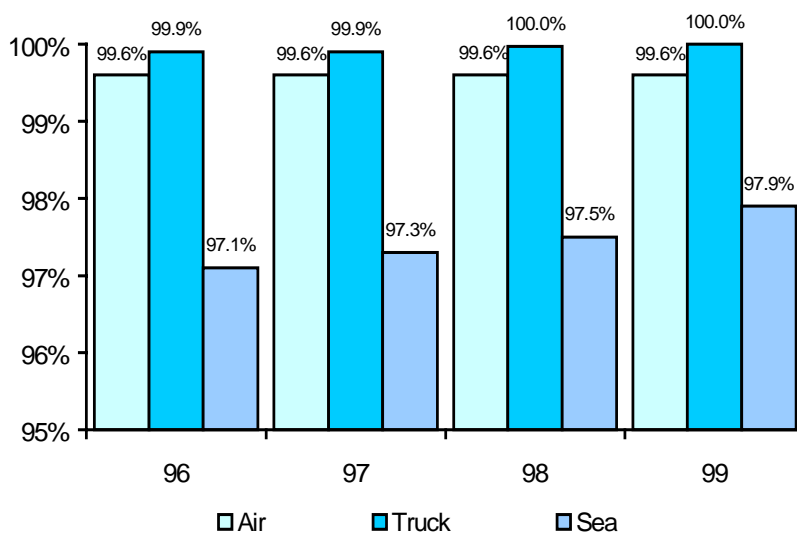
Border Inspection Station, Mariposa, Arizona.

**Goal:** For unexamined entries, release 99.6 percent of air, 99.9 percent of truck, and 97.1 percent of sea entries on the same day they are filed.

**Measured Results:** For unexamined entries, Customs released 99.6 percent of air, 100 percent of truck, and 97.9 percent of sea entries on the same day they were filed.

Customs achieves these high percentages because its automated systems permit the screening of vessel and sea cargo entries prior to arrival. Customs typically releases unexamined entries the same day they are filed. In addition, on the land borders, Customs has instituted a low-risk commercial cargo and truck screening process which permits Customs to release many cargo shipments immediately upon arrival. FY 1996 and 1997 data has been provided through means outside of Customs current automated systems. Accordingly, this data was compiled and/or estimated from other existing manual records.

% Unexamined Entries Released Same Day Filed







## Passenger Processing

**Strategic Goal:** Ensure compliance and allow the expeditious movement of low-risk travelers by increasing traveler awareness and by targeting, identifying, and examining high-risk travelers.

**Strategic Objectives:** A) Achieve voluntary compliance through awareness of Customs requirements. B) Develop and refine methods to select high-risk passengers in advance of arrival. C) Intercept high-risk passengers, while expediting low-risk passengers. D) Physically inspect passengers, baggage, and vehicles for the purpose of determining compliance with laws and regulations.

### Current Category One and Two Violation Definitions

#### Category One

Drugs (above Zero Tolerance)\*, Merchandise (over \$1,250 Domestic Value), Prohibited Weapons and Explosive Devices (except Fireworks), Controlled (21 Code of Federal Regulations §1311.27) or Prohibited Medications (over 1,000 units), Undeclared Currency over \$10,000, and Arrests (excluding Zero Tolerance).

#### Category Two

All arrests, and/or seizures that do not match Category One criteria and any noncompliance with established laws, rules, regulations, and/or specific law, rule, or agreement which Customs is responsible for enforcing.

\*Zero tolerance pertains to "personal use" quantities. Personal use quantities are defined as that amount of controlled substance which indicates no evidence of intent to distribute, or to facilitate the manufacturing, compounding, processing, nor delivering of the controlled substance, or the importing or exporting of a controlled substance in quantities which are not intended for immediate personal use. As a guide, the following quantities are presumed to be for personal use unless evidence of illicit trafficking or distribution exists:

Marijuana (1 ounce), Hashish (1 ounce), Cocaine (1 gram),  
Heroin (1 gram), PCP (1/10 gram), LSD (10 units), and Methamphetamine (1 gram).

**Goal:** Achieve an estimated rate of "Category One" violations of no more than 1 violation per 1,800 vehicles at major land borders and 10 violations per 12,000 air passenger declarations.

**Measured Result:** Customs estimated:

- 1 violation per 1,660 vehicles in FY 1999;
- 1 violation per 2,013 vehicles in FY 1998;
- 1 violation per 2,573 vehicles in FY 1997; and
- 1 violation per 1,996 vehicles in FY 1996.

Customs estimated 5.1 violations per 12,000 air passenger declarations in 1999.

Customs has raised the confidence interval of Passenger Compliance Rates by increasing the minimum random sample size of land vehicles from 10,000 to 12,000 per year based on an analysis of the historical data and measured results for FY 1996, 1997, and 1998. The minimum random sample size for commercial air passengers remains at 10,000 per year and the participants are encouraged to increase the sample size to 12,000 annually.



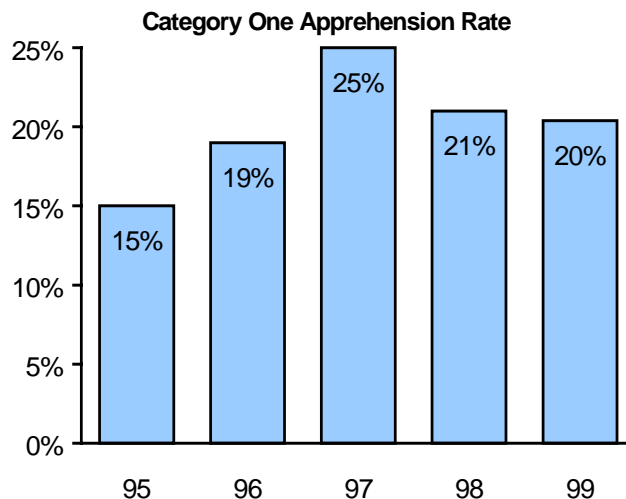
Border Inspection Station, Otay Mesa, California.  
U.S./Mexican Border appears on the right.



**Goal:** Achieve an apprehension rate of at least 20 percent for "Category One" violation vehicles at major land borders.

**Measured Results:** Customs achieved an apprehension rate of 20.1 percent for "Category One" violation vehicles at major land borders.

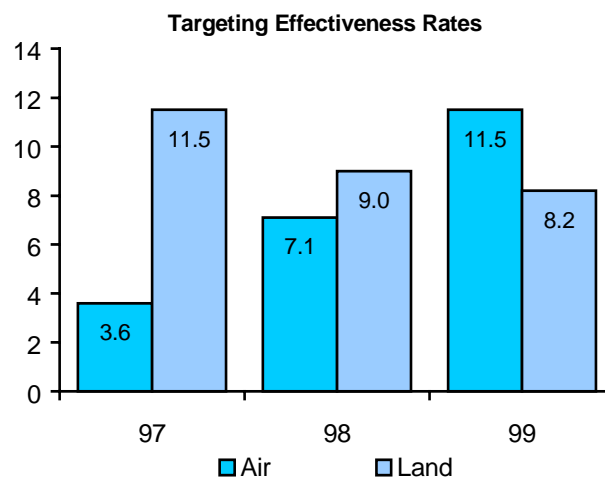
The apprehension rate is an estimate of the portion of "Category One" violations actually identified and apprehended. The apprehension rate is also referred to as the exam ratio, which is the percentage of enforcement exams that result in the identification of "Category One" violations. This number is based on statistical sampling methodology in effect at all land border ports. FY 1995 and 1996 data was compiled and estimated from existing manual records. FY 1997, 1998, and 1999 data were gathered from a Customs automated database.



**Goal:** In selecting vehicles for inspection, achieve a targeting effectiveness rate that is at least 10 times more productive than random selectivity for vehicles at major land borders and for passengers at major airports.

**Measured Results:** Customs achieved a targeting effectiveness rate that is 11.5 times more productive than random selectivity for passengers at major airports and 8.2 times more productive than random selectivity for vehicles at major land borders.

At airports, air passenger targeting efficiency increased from 7.1 to 11.5 times more productive than random selectivity. In order to reach our goal this year, Customs has implemented various new targeting methods for increasing its efficiency such as advanced passenger information.

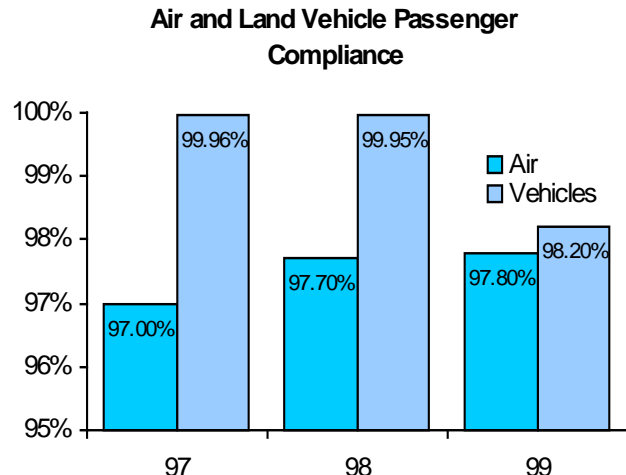


Customs targeting efficiency rate at land borders decreased from 9.0 to 8.2 times more productive than random selectivity. Current targeting capabilities appear to limit the ability of Customs to increase its targeting efficiency levels. In an effort to increase the targeting efficiency levels, Customs has created a database and a team to analyze search data to improve targeting. At the land border and airport environments, Customs is undertaking intensive refresher training to improve targeting techniques.

**Goal:** Achieve an Air Passenger Compliance Rate of at least 97.7 percent and a Vehicle Compliance Rate of at least 99.97 percent.

**Measured Result:** The air passenger compliance rate was 98.2 percent. The vehicle compliance rate declined slightly to 97.3 percent.

The decrease in the vehicle compliance rate from FY 1998 led to numerous initiatives to enhance the compliance rate for vehicles as well as in the air and sea environments. Customs has embarked on an intensive campaign to better inform travelers of all the procedures and necessary requirements prior to being processed by Customs. Various developments include literature, brochures, signage, and Internet communications to increase the compliance rate.



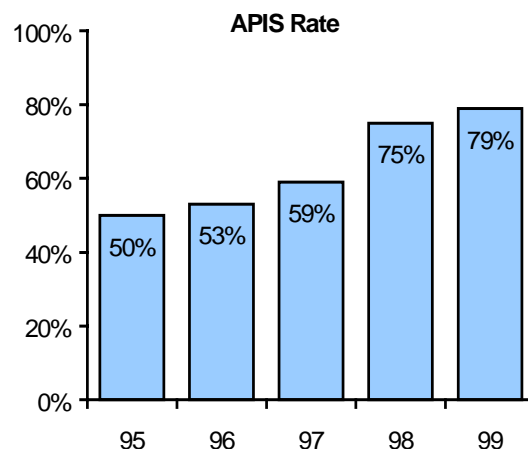
FY 1999 data includes Category 1 and 2 violations. FY 1997 and 1998 compliance rates for land vehicles is based only on Category One violations only.



**Goal:** Receive air passenger data through the Advance Passenger Information System (APIS) for at least 80 percent of non-precleared flights.

**Measured Results:** Customs received data through APIS for 79 percent of non-precleared flights.

APIS is a cooperative effort between Customs, the Immigration and Naturalization Service, and participating airlines. Advance passenger information is collected by the airlines at time of check-in and transmitted to Customs to aid in the targeting and identification of high-risk passengers, leading to more effective narcotics interdiction and passenger processing. In FY 1999, nine additional carriers signed an APIS Memorandum of Understanding designed to improve the quantity and quality of data transmitted to Customs, as well as improve the total processing time of passengers by all Federal Inspection Service agencies for passengers from aircraft block time through the exit. Data from FY 1995 and 1996 was provided through means outside Customs automated data systems. This data is estimated from other automated and manual collection systems. Data for FY 1997 and 1998 is provided from Customs automated databases.



**Goal:** Clear at least 95 percent of all non-precleared air passengers through Customs, from checked luggage retrieval to exit, within 5 minutes.

**Measured Results:** Customs cleared 95 percent of all non-precleared air passengers through Customs, from checked luggage retrieval to exit, within 5 minutes.

Data for this measure is based on surveys performed at selected airports. Customs maintained a 5-minute or less processing time for the past 5 years.

## Outbound

**Strategic Goal:** To maximize the degree of compliance with United States export requirements while simultaneously facilitating international trade in order to protect the national security, economic interests, and the health and safety of the American people.

**Strategic Objectives:** A) Establish an electronic data-driven Outbound Process. B) Develop and implement a comprehensive compliance program for the Outbound Program. C) Interdict, investigate, and support prosecution of willful violators of outbound laws, embargoes, and sanctions with the primary focus on terrorism, currency, stolen vehicles, and controlled commodities.

**Goal:** Attain an AES participation rate of at least 30,000 exporters.

**Measured Results:** Customs achieved an overall AES participation rate of 33,655 exporters.

The AES is an automated system that captures export data. AES unifies the export reporting and enforcement missions of multiple government agencies. Current export data reporting is inaccurate and underreported; an estimated 7 to 15 percent of export shipments is not reported. AES is designed to help prevent reporting errors which affect the accuracy and quantity of export trade data. Ports are encouraged to aggressively market AES. Customs can measure marketing efforts by monitoring the increases in AES participation. During FY 1999, Customs surpassed its targeted participation goal by 12 percent. In an effort to give a clearer picture of AES participation, in FY 2000, this measure will capture the following elements: 1) number of exporters; 2) number of lines; and 3) percentage of transactions filed through AES.



**Goal:** Attain compliance rate of at least 92 percent with key export reporting requirements.

**Measured Results:** 93.1 percent compliance with the timely filing of the vessel manifest.  
94.9 percent compliance with the timely filing of the vessel bills of lading.  
86.5 percent compliance with the timely filing of SEDs on the land borders.

During FY 1999, Outbound Compliance Measurement Surveys were conducted on both the Northern and Southern Borders. The results of these statistically valid surveys will be used to set baseline rates for border compliance. Outbound is working with OST to develop statistically valid surveys to measure air manifest compliance for the nation. A statistically valid method to determine vessel manifest compliance has been developed and will be implemented as vessel carriers complete their program and transmit manifest data electronically to AES. To continue participation in the carrier agreement program, the carriers will maintain the annual level of compliance for the key reporting requirements. Manual audits will continue for non-automated carriers.

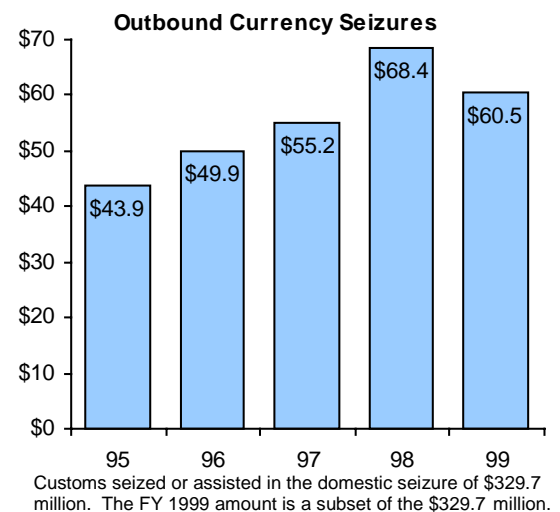
**Goal:** Achieve an overall targeting effectiveness rate of at least 7 percent in outbound cargo shipments.

**Measured Results:** Customs achieved an overall targeting effectiveness rate of 11.5 percent in outbound cargo shipments. In FY 2000, we plan to develop ways to improve collection of data, thereby improving the accuracy of the targeting effectiveness rate.

**Goal:** Seize at least \$59 million in currency bound for illegal exportation.

**Measured Results:** Customs seized \$60.5 million in currency bound for illegal exportation.

In FY 1999, 1,483 seizures were made totaling approximately \$60.5 million. Southwest Border seizures increased from \$14.4 million in unreported outbound currency in FY 1998 to \$16.5 million in FY 1999. The Port of Chicago made a significant contribution with the single largest seizure of \$1,565,658 in one outbound shipment. Customs exceeded its goal of \$59 million in currency seizures due to the establishment of full-time Outbound teams, increased efforts to conduct outbound enforcement examinations, and the implementation of formalized outbound currency interdiction training. The increased use of forfeiture funds for participation of state and local officers in enforcement operations contributed to the increase in Southwest Border currency seizures.



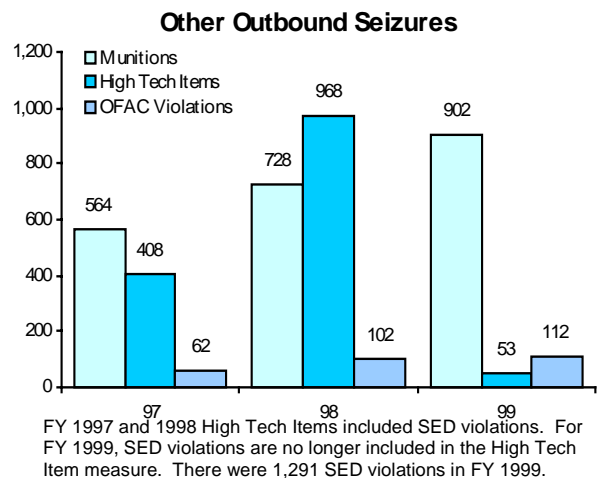
**Goal:** Make at least 648 combined seizures of munitions, high technology, and Office of Foreign Asset Control (OFAC)-sanctioned items.

**Measured Results:** Customs made 902 seizures of munitions being illegally exported.

**Measured Results:** Customs made 53 seizures of high technology items illegally exported.

**Measured Results:** Customs made 112 seizures of OFAC-sanctioned items.

Operation EXODUS is a Customs intensified enforcement program designed to intercept illegal exportations of munitions, strategic technology, and shipments destined for sanctioned countries. The program supports national security and foreign policy. Although we exceeded our goal for high technology seizures, the seizure results for FY 1999 were lower in comparison to FY 1998 technology seizures. This is due to the new definition for the measure of outbound licensing violation seizures which states that commerce technology seizures will only include export licensing violations. Therefore, in FY 1999, SED violation seizures were reported separately. Customs made 1,291 seizures for other SED violations. Had the SEDs been included in FY 1999 as they were in FY 1998, the total number of high technology seizures would have shown an increase.





## Financial Management Highlights and Performance

Customs continued its progress toward establishing sound financial management by preparing timely and accurate financial statements which earned an unqualified opinion from independent auditors. This was the fourth consecutive year that Customs has received an unqualified opinion, a result primarily due to a willingness to confront problems and coordinate effective solutions to weaknesses found in Customs processes. During the past year, Customs has proceeded with a number of significant financial management initiatives to improve the effectiveness and efficiency of agency operations.

Customs developed a strategy for the Commissioner to set priorities and make decisions for the year-end budget process which funds critical agency requirements. This will help to minimize any lapse of appropriated funds. An integrated process was put in place to improve the coordination and development of the budget in a way to simultaneously satisfy the needs of Customs planning, investment management, and budgetary processes. The Smart Card program was implemented throughout Customs; the use of Smart Card facilitates the purchase of needed items by thousands of cardholders in the Fleet, Travel, and Purchase Card product lines. Customs effectively managed the Harbor Maintenance Fee refund process, exceeding the Court of International Trade's suggested target rate of processing. Customs also used interagency agreements to achieve economies in the performance of user fee audits and the recovery of funds owed the government. Over \$7 million has been recovered as a result of the audits at a minimal cost to Customs.

To improve its level of service to customers, Customs moved to an Electronic Posting System for all solicitations and contracts. We also implemented Fast-track, a new contracting method suitable for contract purchases with defined requirements. Fast-track reduced the amount of time needed to award a contract by an average of 30 to 40 days. Customs again increased the percentage of financial transactions accomplished electronically, including revenue collections, travel payments and salary payments. Also, the number of Automated Clearing House (ACH) participants increased. New procedures were implemented to expedite the processing and approval of payments for general order merchandise, reducing payment times from the previous 200 to 400 days to about 45 to 60 days. In addition, requirements for an automated system to approve asset sharing were completed, and the system is being tested. The new system will expedite the processing of sharing requests and reduce paperwork. Finally, Customs refined its vehicle replacement policies to promote a 5-year cycle for replacement of its vehicle fleet.

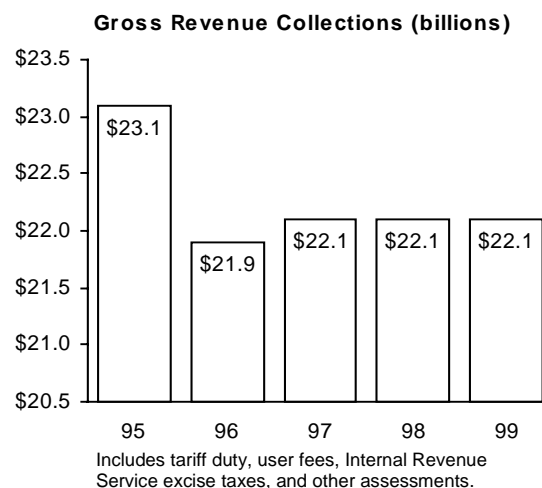
Customs took tangible steps this year to implement financial systems integration and enhancement plans. In the financial area, progress was made in developing the periodic statement, reconciliation, and violation bill prototypes to include in our information technology modernization plan. In a separate initiative, replacing Customs general ledger and supporting administrative systems, baseline functional requirements were completed, a formal software solicitation was made, and a contractor was selected. In FY 1999, CMIS was implemented Customswide, with hands-on training provided for each CMC to ensure successful implementation. Finally, continuity-of-operations plans were completed for financial systems, and preparations to deal with Year 2000 problems were successfully coordinated.

Customs has re-emphasized its goal of being recognized as a leader in financial management. To measure its progress in approaching its objectives in this area, a series of performance measures has been established.

**Goal:** Increase total revenue collections on behalf of the U.S. Government (tariff duty, user fees, excise taxes, and other assessments).

**Measured Results:** Collections remained relatively unchanged from FY 1998 collections, at \$22.1 billion.

Customs administers the U.S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across U.S. borders, and assessing and collecting duties, excise taxes, fees, and penalties on imported and exported goods and services. In FY 1999, Customs collected \$22.1 billion and provided \$22.0 billion of this to Treasury to fund other agency programs. Of the remaining \$178.8 million, Customs provided \$63.0 million to the Puerto Rico and Virgin Islands governments, transferred \$66.5 million directly to other federal agencies, and retained \$49.3 million to offset various program costs allowed by law and regulation. Duty and user fee collections decreased \$125.8 million, but were offset by increases in excise taxes, interest, and other miscellaneous collections.



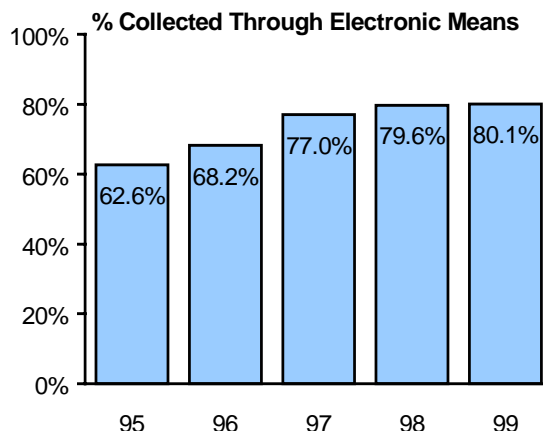




**Goal:** Increase total revenue collections through electronic means to at least 75 percent.

**Measured Results:** Customs revenue collections through electronic means increased to 80.1 percent.

The total amount of collections received via electronic means during FY 1999 exceeded \$18.3 billion. This amount represents a continuing increase of electronic collections when compared to prior fiscal years. The primary systems used to process these electronic collections include the ACH, On-Line Payment and Collection (OPAC), and Fedwire. ACH is used to process collections received from the trade community; OPAC is used to process collections from other government agencies; and Fedwire is used to process credit card and excise tax collections.



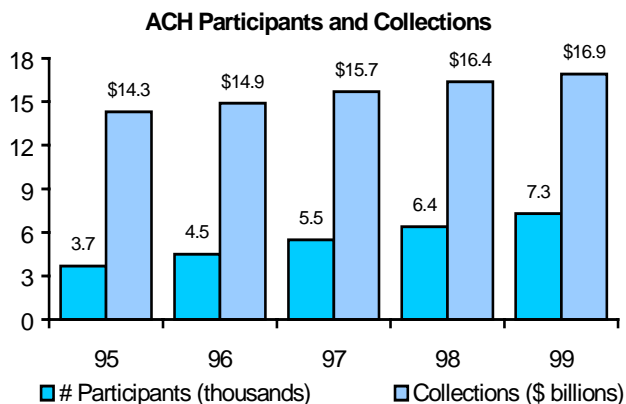
**Goal:** Earn an unqualified opinion on Customs Financial Statements.

**Measured Results:** Customs earned an unqualified audit opinion on its FY 1999 financial statements. This is the fourth consecutive year Customs has received a "clean" opinion. Achieving a "clean" opinion has taken on more significance, as additional formal statements have been required in the process. The fact that Customs has received an unqualified audit opinion on its financial statements for four consecutive years sends a strong message of financial integrity to key audiences such as the Congress and the public.

**Goal:** Increase number of ACH participants.

**Measured Results:** 7,343 members of the trade community participated yielding a total of \$16.9 billion in collections, an increase from prior years.

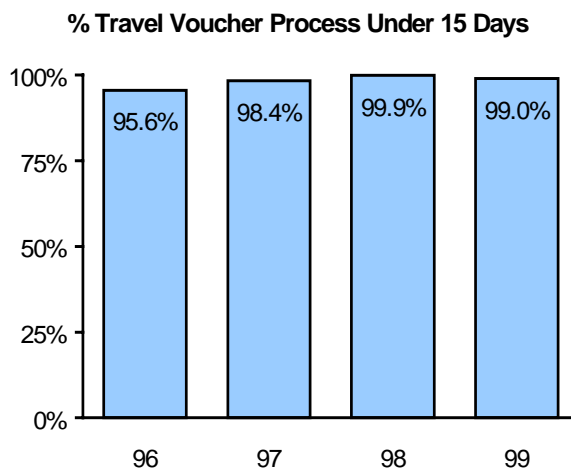
Through the ACH, many members of the trade community paid duties and other fees electronically. ACH saves Customs and its customers time and resources by replacing manual cash and check processing methods with accurate electronic payment transfers.



**Goal:** Process at least 98 percent of all manual travel vouchers, excluding relocation-related vouchers, within 15 days of receipt.

**Measured Results:** Customs processed 99 percent of all manual travel vouchers, excluding relocation-related vouchers, within 15 days of receipt.

A timely reimbursement standard was set to prevent financial hardship to employees and/or delinquent government travel credit card accounts. This measure is tracked by comparing receipt dates to process dates maintained through document tracking in the Asset Information Management System (AIMS). Customs started measuring the numbers of vouchers processed within 15 days in May 1996.

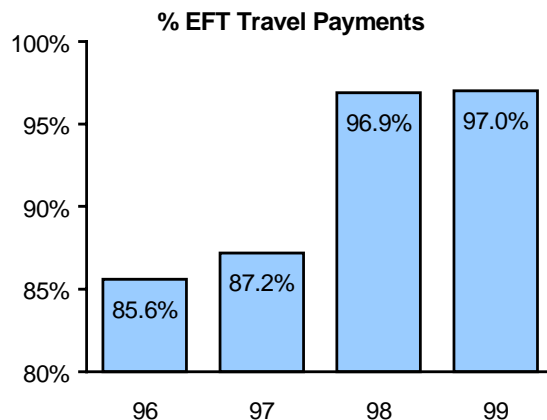




**Goal:** Increase travel payments made by Electronic Funds Transfer (EFT) to at least 98 percent.

**Measured Results:** Customs EFT travel payments were 97 percent of all travel payments.

The FY 1999 goal was raised from 85 percent in FY 1998 to 98 percent. The goal was not attained due to waivers and exemptions. This measure compares all travelers' payments (check and EFT) compared to the number of EFT only travel payments. A higher percentage of EFT payments means employees receive their payments faster. It also indicates savings over the former issuing of Treasury checks for reimbursement. FY 1996 data has been provided through means outside of Customs current automated systems. Accordingly, this data was compiled and/or estimated from other existing manual records.



**Goal:** Attain at least a 25 percent rate of invoices received through Electronic Data Interchange (EDI).

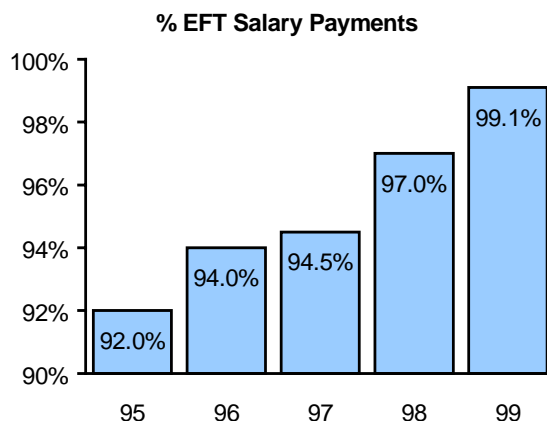
**Measured Results:** Customs EDI invoices increased to 15.4 percent of all invoices.

EDI was implemented in April 1997; therefore, FY 1998 is the first full year of implementation. EDI allows billing transactions to occur electronically in a standardized data exchange process, without paper. This requires vendors (the transmitters of billing data) and customers (the receivers of billing data) to work using standard prescribed protocols. Currently, Customs has two commodities (fuel and contract mail) on EDI. The demand for these commodities fluctuates from month to month which affects the percentage reported each month. The current configuration of the AIMS EDI Module cannot accommodate the electronic invoicing and receiving for some of our largest commodities such as telephone services, rental of photocopying machines, and centralized purchase of electronic equipment. Enhancements to the AIMS EDI Module have been identified and prioritized, however, AIMS enhancements have been stopped and will be addressed by the new system purchased as part of the Quality Planning for Asset Management (QPAM) project.

**Goal:** Maintain salary payments made by EFT at 98 percent or better.

**Measured Results:** 99.1 percent of salary payments were made by EFT.

The Debt Collection Improvement Act (Public Law 104-134) mandates the use of EFT for federal payments. Consequently, this performance measure was established to identify the percent of employees who are receiving their salary via EFT. The higher number of employees receiving their salary by EFT also results in a reduction of Treasury's processing cost as the cost of processing an EFT is significantly less than the cost of processing a check. Customs realizes added cost savings because its related costs of processing check tracers, issuing emergency checks, and accounting for these transactions are reduced or eliminated. Customs requires employees to complete a waiver letter and submit it to the Accounting Services Division if they choose not to adopt EFT. The regulations provide that payment by EFT is not required when "an individual determines, in his or her sole discretion, that payment by electronic funds transfer would impose a hardship." FY 1995 - 1996 data has been provided through means outside of Customs current automated systems. Accordingly, this data was compiled and/or estimated from other existing manual records.





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**Goal:** Cumulative results of operations from user fee activity.

**Measured Results:** Customs cumulative results of operations decreased \$44 million in FY 1999, from \$1.016 billion reported in FY 1998 to \$972 million, principally as a result of user fee activity.

Changes to the user fee legislation became effective October 1, 1997, including a passenger fee reduction and certain passenger exemptions. Collections decreased \$123 million from FY 1997 to FY 1998, but the FY 1998 collections included payments for passenger travel during the last quarter of FY 1997. The last quarter of FY 1997 collections still included the higher rate and did not exempt any passengers. Collections decreased again this year mostly because we didn't have any collections at the higher rate or any of the exempted passengers.

Customs cumulative results of operations balance is comprised primarily of user fee collections relating to merchandise and passenger processing. These user fees are used to offset Customs costs for specific inspection activity. User fees comprise approximately \$854 million of the \$972 million balance. The remaining \$118 million is comprised of the net of invested capital and future funding requirements for liabilities not covered by budgetary resources. As of September 30, 1999, and 1998, \$640 million of the total balance of user fees collected is restricted by law and not available to Customs except by appropriation. At September 30, 1997, the restricted balance was \$588 million. The amount did not change from FY 1998 to FY 1999.

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**Goal:** Ensure that 90 percent of all micro-purchase transactions (under \$2,500) will be completed using the Smart Card.

**Measured Results:** Customs processed 95.6 percent of all micro-purchase transactions using the Smart Card in FY 1999.

In FY 1999, Customs completed 92,971 micro-purchase transactions using a variety of simplified acquisition options. Of those transactions, 90,952 (97.8 percent) were made using the Smart Card; 1,175 (1.3 percent) were made using purchase/delivery orders; and 834 (0.9 percent) were made using Blanket Purchase Agreements.

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**Goal:** Prompt Payment Act: Pay at least 98 percent of all invoices timely; reduce the dollar amount of interest paid to 0.02 percent or less of the total value of invoices paid.

**Measured Results:** Customs paid 98.7 percent of invoices timely; the dollar amount of interest paid was 0.015 percent of the total dollar amount of invoices paid. OMB established a goal rate of 98 percent for the timely payment of all invoices and a frequency rate of 0.02 percent or less for the total number of invoices on which interest is paid. This measure identifies timely processing by both the field offices and OF. Customs met and exceeded OMB goals.

| Invoices Subject to the Act              | FY 1995       | FY 1996       | FY 1997       | FY 1998       | FY 1999       |
|--|---------------|---------------|---------------|---------------|---------------|
| Total Paid                               | \$283,957,190 | \$292,544,333 | \$331,510,780 | \$338,879,832 | \$438,249,885 |
| Total Paid Late                          | \$33,947,975  | \$28,170,213  | \$17,377,661  | \$17,307,697  | \$25,333,590  |
| Interest Paid                            | \$53,025      | \$45,051      | \$38,676      | \$32,580      | \$67,567      |
| Interest Percentage of Total Amount Paid | 0.019         | 0.015         | 0.012         | 0.009         | 0.015         |



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## Biennial Review of Treasury Charges

The Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, established fees for inspectional activities to offset the cost incurred by Customs for processing air and sea passengers, commercial vessels, commercial trucks, rail cars, private aircraft and vessels, dutiable mail packages, and licensing of Customs brokers. A major addition to Customs User Fee Program was enacted with the Omnibus Budget Reconciliation Act of 1986, which provided for an ad valorem merchandise processing fee on imported merchandise.

All of the fees are set legislatively, and any adjustments to the fees require a statutory change. The authorizing legislation also establishes restrictions, prohibiting Customs from using the fees to fund the related services. Some of the fees have legislative caps that limit the amount of cost recovery; in other cases, the amounts collected are not available to Customs, except through appropriations.

In the past, Customs was not able to adequately perform the biennial reviews of these fees, as required under the CFO Act, because of a lack of needed financial information. The relevant information is now being provided by CMIS. Customs completed a review of all user fees and reimbursable services programs. The review indicates that certain fees and charges should be revised to reflect the full cost of the services provided, but the proper fee amounts still need to be determined.

## Financial Management Systems Initiatives

In FY 1999, resources invested in new or improved financial management systems have helped Customs create a more efficient work process:

### Seized Asset and Case Tracking System (SEACATS)

SEACATS is the single repository for Customs inventory and case information related to seized and forfeited property; and to fines, penalties, and liquidated damages from case initiation to final resolution. SEACATS is also used by the Treasury Forfeiture Fund to track seized and forfeited property held by the seized property contractor on behalf of other Treasury bureaus. In FY 1999, additional functionality was added to SEACATS to include an Offers in Compromise module, enhanced property and currency reporting functions, and enhanced accounts receivable reports.

### Cost Management Information System (CMIS)

In FY 1999, CMIS was implemented Customswide with hands-on training provided for each CMC to ensure successful implementation. CMIS provides managers with quantitative decision support information for resource use, full costs of operations, direct costs of operations for POEs and CMCs, assistance in evaluating program results, baseline costs for users fees, compliance with legislation, and accurate cost information for external parties (e.g., the Congress). CMIS data is used to assist in the preparation of Customs Statement of Net Cost. CMIS FY 2000 initiatives include utilizing the Customs Overtime and Scheduling System to obtain labor data information and improving the alignment of CMIS core business activity definitions with Customs strategic plan and performance measures.

### Quality Planning for Asset Management (QPAM)

The QPAM project involves implementing best practices and off-the-shelf software solutions in order to reengineer the functional processes of budget, acquisition, property management and payables into a streamlined, integrated asset management process. The project was approved by the Customs Investment Management Program in FY 1999. A competitive procurement was held in FY 1999, which resulted in the selection of SAP's R/3 system as the new enterprise wide accounting and asset management software. Acceptance testing of the R/3 software will be conducted in FY 2000, with rollout planned for FY 2001 through FY 2003.



## Year 2000 (Y2K) Issues

### Customs Declares Victory Over Y2K!

The "Millennium Bug" didn't stand a chance -- not with the U.S. Customs Service breathing down it's neck. Working for 2½ years to defeat the potential Y2K problem, Customs celebrated the turn of the century with the Millennium Bug nowhere to be found.

While people worldwide braced for the long-awaited arrival of the Year 2000, Customs welcomed it with arms open wide. It was no accident that after midnight on December 31, 1999, all of Customs mission critical computer systems and equipment continued to function properly and without interruption. Fully operational systems allowed Customs to transition immediately into the Year 2000, completely capable of providing the exceptional service and security at America's borders that the public has come to expect.

Thanks to the diligent efforts of the Customs Year 2000 Program and the hard work of the hundreds of federal and contract employees assigned to the Customs Y2K project, Customs offices nationwide have reported but a few small Y2K-related discrepancies. In fact, of the approximate 2,500 work tickets received by the Customs HelpDesk and Emergency Response Center between January 1 and January 10, 2000, only 17 tickets had Y2K implications. All of the 17 discrepancies, however, were minor in nature and none had any impact whatsoever on Customs core business processes. Examples of reported Y2K discrepancies included: telephone voicemail systems not rolling over to the correct date and time; a local power outage (beyond Customs control); an incorrect date on a standalone PC; and an inoperable postal meter.

With the passing of the New Year, many major Y2K hurdles have been successfully conquered. But, like other organizations dealing with the Y2K challenge, Customs is not yet "out of the woods." Because a potential Y2K threat existed for several days following the century rollover, Customs continued to monitor Y2K readiness and receive Y2K reports from field locations until January 10, 2000. During that period, over 400 individuals, including many representatives from the field, staffed the Virg Command Center around-the-clock to ensure that any Customs Y2K problems were dealt with and corrected as swiftly as possible.

To sustain a high level of vigilance for Y2K or other reasons, Customs has future plans to staff the Emergency Response Center during high-threat periods, 24 hours a day, as it did from New Year's Eve to January 10. Current plans call for the Emergency Response Center to again be staffed during the February 29, 2000 timeframe to accommodate any potential Y2K Leap Year occurrences. If the next few weeks are successful from a Y2K standpoint as the last few days have been (and all indications are that they will be), Customs will declare a complete victory over the Millennium Bug once and for all.

(From Customs web site -- posted January 11, 2000.)

### Information Technology (IT) Status:

Although all Y2K tasks were completed prior to December 1999, Customs will maintain its Y2K test environment until March 2000. This will enable Customs to accommodate organizations that wish to test their interfaces with ours. In addition, the Y2K Emergency Response Center (ERC), which has been operational since August 1999, has demonstrated its value to the agency and will be maintained as a component of agency contingency planning for possible future emergencies.

### Non-Information Technology (Non-IT) Status:

Of the 1,771 Non-IT mission critical products identified, 135 products were not Y2K compliant (88 of these products were replaced, 13 were repaired and 34 were retired). In addition, the Office of Finance surveyed 850 Non-IT facilities to determine their level of compliance and to take the appropriate actions to ensure their ability to function during the transition to Y2K.

### Program Costs:

|  |           |
|--|-----------|
| October 1997 Y2K estimate, including Government Labor: | \$123.9 M |
| Current Projection for Program Expenditures:           | \$113.9 M |
| Expenditures through 9/30/99 are:                      | \$104.2 M |

### Supplemental Funding Sources

|                |                         |           |
|----------------|-------------------------|-----------|
| As of 9/30/99: | Forfeiture Fund:        | \$ 26.7 M |
|                | Treasury:               | \$ 10.6 M |
|                | Emergency Supplemental: | \$ 11.9 M |





## Federal Managers' Financial Integrity Act (FMFIA) Summary

Customs has evaluated its management controls and financial management systems for the fiscal year ending September 30, 1999, as required by the FMFIA of 1982. In addition to its internal evaluations, Customs also relied upon independent financial statement audits, conducted under the auspices of the CFO Act and the GMRA, in its assessment process.

Customs fully supports the objectives of FMFIA and FFMIA in promoting greater accountability throughout government. Considerable emphasis has been placed on the establishment of effective internal and quality controls. Of the 115 internal control weaknesses identified under Section 2 since inception of the program, 111 have been corrected and closed, leaving only 4 unresolved as of September 30, 1999. The 4 unresolved items are from prior years and their correction primarily involves systems development, systems enhancement, or security issues. Of the 35 accounting systems non-conformances identified since the beginning of the program, 2 remain unresolved.

We closed 2 weaknesses this year and 4 of our remaining 6 weaknesses are scheduled for closure in FY 2000. No new Section 4 weaknesses were reported this year. As evidenced by the number of weaknesses reported and closed over time, Customs has made significant progress in addressing and resolving management controls issues. The unqualified opinion received on the FY 1999 Financial Statements is one reflection of the positive results of our efforts to correct conditions noted in the CFO audit process.

We have now arrived at a point where we cannot resolve remaining weaknesses without significant external support and understanding. The magnitude and scope of our systems deficiencies mandate comprehensive solutions requiring major resources. Customs will continue to seek appropriated funds needed to move forward on these initiatives. In the meantime, we will utilize those compensating procedures and controls at our disposal to assure the integrity of our financial operations.

### Annual Assurance Statement for FY 1999

*Due to current deficiencies in the quality and adequacy of data provided by Customs financial accounting and reporting systems, I cannot provide reasonable assurance that Customs overall controls and financial management systems are in conformance with the standards prescribed by the Comptroller General of the United States. Based on the results of this year's Office of Inspector General audit of Customs financial systems under the Chief Financial Officers (CFO) Act, we do not have reasonable assurance that the objectives of Section 4 of the FMFIA have been achieved, namely the conformance of our fiscal and administrative systems to General Accounting Office principles and standards. As a consequence, I cannot state compliance with the financial management system requirements of the Federal Financial Management Improvement Act (FFMIA). However, with the exception of the material weaknesses described, I can provide reasonable assurance that the general internal control objectives of Section 2 of the FMFIA have been achieved.*

### Section 2, Internal Control

|   | Number of Material Weaknesses          |   |                                      |
|---|--|---|--------------------------------------|
|   | Number reported for the first time in: | For that year, number that have been corrected: | For that year, number still pending: |
| Prior Years   | 112                                    | 109   | 3                                    |
| 1997 Report   | 2                                      | 1   | 1                                    |
| 1998 Report   | 1                                      | 1   | 0                                    |
| 1999 Report   | 0                                      | 0   | 0                                    |
| Total   | 115                                    | 111   | 4                                    |
| Of the total number corrected, how many were corrected in 1999? 1 |  |   |                                      |

### Section 4, Financial Management Systems

|   | Number of Material Non-Conformances    |   |                                      |
|---|--|---|--------------------------------------|
|   | Number reported for the first time in: | For that year, number that have been corrected: | For that year, number still pending: |
| Prior Years   | 35                                     | 33  | 2                                    |
| 1997 Report   | 0                                      | 0   | 0                                    |
| 1998 Report   | 0                                      | 0   | 0                                    |
| 1999 Report   | 0                                      | 0   | 0                                    |
| Total   | 35                                     | 33  | 2                                    |
| Of the total number corrected, how many were corrected in 1999? 1 |  |   |                                      |



# **SECTION I, PART A: OPEN MATERIAL WEAKNESSES (Section 2A) AS OF 9/30/99:**

| Bureau and Control Number | Title of Material Weakness:   | Description of Material Weakness:  | Major Milestones<br>a) Short Term<br><br>b) Long Term   | Milestone Dates                       |                               |
|---------------------------|---|--|---|---------------------------------------|-------------------------------|
|                           |   |  |   | Original Due Dates                    | Current Due Dates             |
| CS-93-01                  | Lack of controls in Customs in-bond program   | Program provided little assurance revenue loss or transportation of contraband was not occurring.  | a) TINMAN System in full operation; TINMAN II to provide reporting and analysis capabilities and better user interface.   | 4/1/97                                | 10/28/98<br>9/30/00           |
| CS-94-02                  | Inability to timely restore critical systems; lack of a disaster recovery plan  | Deficiencies impair Customs ability to respond to a disruption in business operations.   | a) Work to implement MOU with IRS on backup site; replace job execution software; and upgrade telecommunications network;<br>b) Revise Business Impact Analysis and Disaster Recovery Plans and investment management process | 12/31/99<br>4/30/00<br>9/30/00<br>TBD |                               |
| CS-95-01                  | Inappropriate access to ADP files, inadequate control of emergency change process, and inappropriate separation of duties | Access capabilities and control mechanisms for critical applications and major support systems need improvement.   | a) Restrict programmer access to production programs; transfer security functions and duties from SEACATS to AISSD; and fully install software to control changes in application software.                                    | 3/31/97<br>9/30/99<br>3/31/00         | 3/31/00<br>3/31/00<br>9/30/00 |
| CS-98-01                  | Discrepancies in Customs Outbound Air Manifest Process  | A survey of the air outbound manifest process found discrepancies in both Customs and air carrier procedures. A significant number of manifests and shipping declarations were missing | a) Conduct a statistically valid national survey and review manifest procedures at airports to assure adherence to internal procedures.   | 6/30/99                               | 2/01/00                       |

## **SECTION I, PART B: THE COMPLETE LIST OF MATERIAL WEAKNESSES (Section 2A) CLOSED DURING FY 1999:**

| Bureau and Control Number | Title of Material Weakness:                               | Description of Material Weakness:  | Validation Process to be Used  | Date Closed |
|---------------------------|---|--|--|-------------|
| CS-97-01                  | Lack of an enterprise information technology architecture | Customs did not have an enterprise IT architecture (EA) appropriate for implementing IT investments in its business processes. | The EA Repository, EA Blueprint, and Technical Reference Model were provided to Customs Audit Oversight Office to verify and validate corrections to the weakness. | 9/14/99     |



**SECTION II, PART A: OPEN ADMINISTRATIVE SYSTEMS' NON-CONFORMANCES (Section 4A)  
AS OF 9/30/99:**

| Bureau and Control Number | Title of Non-Conformances: | Description of Non-Conformances:  | Major Milestones<br>a) Short Term<br><br>b) Long Term   | Milestone Dates   |  |
|---------------------------|----------------------------|---|---|---|--|
|                           |                            |   |   | Original Due Dates  | Current Due Dates  |
| CS-93-01                  | Financial Systems          | Customs financial systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements. | a) Complete acceptance testing of new software chosen to replace general ledger.<br>b) Pilot test of the initial version of the subsidiary ledger; pilot software deployment of the SAP-R/3 software for the SGL; implement full software deployment of new SGL software; establish an integrated financial system based on IT modernization of commercial systems. This will include a fully developed subsidiary ledger and collections, payable, and disbursing functions. Phase 2 will establish the generic structure of the system; in Phase 3 and in Phase 4 transaction specific functionality will be added. | 5/01/00<br><br>3/31/99<br><br>10/01/00<br><br>10/01/02<br><br><br>9/30/05 | 9/30/01<br><br><br><br><br><br><br>9/30/02<br>9/30/03<br>9/30/04 |

**SECTION II, PART B: THE COMPLETE LIST OF ADMINISTRATIVE SYSTEMS' NON-CONFORMANCES (Section 4A) CLOSED DURING FY 1999:** None reported.

**SECTION III, PART A: OPEN FISCAL SYSTEMS' NON-CONFORMANCES (Section 4F)  
AS OF 9/30/99:**

| Bureau and Control Number | Title of Non-Conformances: | Description of Non-Conformances:  | Major Milestones<br>a) Short Term<br><br>b) Long Term   | Milestone Dates   |                   |
|---------------------------|----------------------------|---|---|---|-------------------|
|                           |                            |   |   | Original Due Dates                                      | Current Due Dates |
| CS-93-02                  | Seized Property Systems    | The automated systems and manual processes for tracking accounting for seized property were not reliable. | a) Automate the currency and property functions to generate a complete analysis of changes in seized and forfeited property; complete module in SEACATS to process refunds to multiple violators; complete asset sharing module in SEACATS; provide multiple forfeiture functionality in SEACATS; and improve General Ledger updates. | 9/30/99<br><br>9/30/00<br>9/30/00<br>9/30/00<br>9/30/00 | 9/30/99           |

**SECTION II, PART B: THE COMPLETE LIST OF FISCAL SYSTEMS' NON-CONFORMANCES (Section 4F) CLOSED DURING FY 1999:**

| Bureau and Control Number | Title of Material Weakness:              | Description of Non-Conformances:   | Validation Process To Be Used  | Date Closed |
|---------------------------|--|--|--|-------------|
| CS-93-04                  | Fines, Penalties, and Forfeitures (FP&F) | Data integrity problems existed in the FP&F system files because of the system's inability to capture certain FP&F case data and because of inaccurate data input to the system. | The effectiveness of corrective actions will be validated by Customs audit oversight process and through CFO audit review. | 9/30/99     |



## Report of the Office of Inspector General



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

To the Commissioner of the U.S. Customs Service:

We audited the U.S. Customs Service's (Customs) Balance Sheets as of September 30, 1999 and 1998, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activity for the years then ended. This report presents our unqualified opinion on these financial statements. Our audit disclosed the following material weaknesses relating to:

- Improving and integrating core financial systems (repeat condition, page 45), and
- Accelerating efforts to ensure timely restoration of mission-critical systems (repeat condition, page 47).

In addition, our audit disclosed 7 reportable conditions and 2 instances of reportable noncompliance with laws, regulations, and government-wide requirements. These findings are described in more detail in the following sections of this report.

### MANAGEMENT'S RESPONSIBILITIES

Management is responsible for:

- Preparing the financial statements in conformity with generally accepted accounting principles.
- Preparing the Overview of Customs (as defined on page 44), required supplemental information, and other accompanying information.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.
- Complying with laws, regulations, and government-wide requirements applicable to Customs.

### SCOPE OF AUDIT

We conducted our audit in accordance with *Government Auditing Standards*, as amended, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and conducting our audit, we considered Customs' internal control over financial reporting and compliance with laws and regulations. Specifically, we obtained an understanding of the design of Customs' internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting and compliance with laws and regulations. Consequently, we do not provide an opinion on such controls.



In addition, with respect to internal controls related to performance measures reported in the Overview of Customs, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Customs' compliance with (a) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and (b) certain other laws and regulations specified in OMB Bulletin No. 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws, regulations, and government-wide requirements applicable to Customs. Providing an opinion on compliance with laws, regulations, and government-wide requirements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether Customs' financial management systems substantially comply with the following three general requirements: Federal Financial Management Systems Requirements, generally accepted accounting principles, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08, as amended.

We have read the information in the Overview of Customs and the other accompanying information and assessed whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements.

## RESULTS OF AUDIT

### OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities, and net position of Customs as of September 30, 1999 and 1998, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended, in conformity with generally accepted accounting principles.

### OTHER INFORMATION

In this report, we refer to the information in the following parts of the *U.S. Customs Service Fiscal Year 1999 Accountability Report* as the Overview of Customs:

- Messages from the Commissioner and Chief Financial Officer (pages 4 - 5).
- Customs' discussion of its mission, FY 1999 operational and financial results, Year 2000 issues, and Federal Manager's Financial Integrity Act (FMFIA) (pages 6 - 42).

Our audit was conducted for the purpose of expressing an opinion on Customs' fiscal year (FY) 1999 and 1998 financial statements referred to above. The information contained in the Overview of Customs and the other accompanying information is not a required part of the financial statements but is supplementary information required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it. However, we compared this information for consistency with the financial statements and, based on this limited work, we identified no material inconsistencies.

### INTERNAL CONTROL

Internal control is a process, effected by Customs' management and other personnel, designed to provide reasonable assurance that the following objectives are met:





- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;
- Compliance with applicable laws and regulations - transactions are executed in accordance with: (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (b) any other laws, regulations, and government-wide policies identified in OMB Bulletin No. 98-08, as amended; and
- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 98-08, as amended, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control, that could adversely affect Customs' ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our *Report on the U.S. Customs Service's Fiscal Years 1998 Financial Statements*, (OIG-99-050, issued March 17, 1999), and that continued to exist during FY 1999, are identified as "Repeat Condition."

We considered the material weaknesses described below in forming our opinion on whether Customs' financial statements as of September 30, 1999 and 1998, and for the years then ended are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and these weaknesses do not affect our opinion expressed above.

## **MATERIAL WEAKNESSES**

### **1. Core Financial Systems Need To Be Improved and Integrated (Repeat Condition)**

Customs' core financial systems did not provide certain critical financial information necessary for managing operations, such as a "customer-based" subsidiary ledger for non-entity accounts receivable. The financial systems also did not capture all transactions as they occurred during the year, did not record all transactions properly, and were not fully integrated. As a result, extensive manual procedures and analyses were required to process certain routine transactions and to prepare financial statements at fiscal year-end. Additionally, the systems did not always provide for essential controls with respect to override capabilities and changes to system data.

Weaknesses in the core financial systems are discussed below:

- Automated Commercial System (ACS) Accounts Receivable Subsidiary Ledger Customs' accounts receivable subsidiary ledger system in ACS was "transaction-based" rather than "customer-based." During the year, ACS could not provide summary information of the total unpaid assessments for duties, taxes, and fees by individual importer. Also, ACS did not generate periodic management information on outstanding receivables, the age of the receivables, or other data necessary for managers to effectively monitor collection activity by customer. Additionally, ACS did not interface with Customs' general ledger system to record all receivables throughout the year. As a result, Customs had to determine the \$921 million recorded balance for



Non-Entity Accounts Receivable, Net as of September 30, 1999, after the fiscal year-end, through the use of ad hoc reports and manual procedures.

- Recording Currency Transactions In Seized Asset and Case Tracking System (SEACATS) Although Customs continued to make significant improvements in processing seized and forfeited property in SEACATS, the system did not maintain accurate and sufficient currency data that could be relied upon for financial reporting purposes without substantial manual reconciliation. Consequently, SEACATS could not produce the analysis of changes in seized currency for the seized and forfeited property disclosure.
- Cost Accounting Customs based reimbursable charges for certain inspection positions and other reimbursable services on budget estimates in FY 1999. Customs' Cost Management Information System (CMIS) tracks costs based on estimates provided by field offices and an inspectors overtime scheduling system. However, the source data input into CMIS needs further refinement to enable Customs to evaluate the accuracy of the budget estimates. More reliable information will ensure that the estimated charges approximate actual costs.

Additionally, Customs currently produces cost management information only at year-end. Cost management information should be produced on a regular basis throughout the fiscal year to provide management with relevant and timely information upon which to base operational decisions.

- Recording Certain Transactions In ACS Accurate information was not always maintained in ACS for the total duty paid on import entries of goods assembled abroad with domestic components. Importers are allowed to deduct the cost of domestic components from the dutiable value of manufactured imported goods. Importers are also permitted to file estimated cost data in support of the dutiable value of the goods when entered, and furnish actual cost data at a later date -- referred to as a "cost submission." Our testing revealed that, based on subsequently furnished cost submissions, Customs recorded the total amount refunded, or additional payment received, against only one or a small number of related import entries rather than against each actual import entry. Thus, ACS did not always reflect the correct liquidated duty amount on import entries related to cost submissions. Accordingly, a subsequent drawback claim for an excessive amount may not be detected in a timely manner. Conversely, ACS may reject a valid drawback claim.

Customs implemented the ACS reconciliation prototype on October 1, 1998. Among other things, the reconciliation process is intended to permit the liquidation of entries specifically identified by claimants. However, reconciliation entries were not liquidated until FY 2000. We will evaluate the ACS reconciliation prototype during our audit of Customs FY 2000 financial statements.

- Recording Certain Transactions In The General Ledger System Certain transactions were not properly recorded in the general ledger system as they occurred. Specifically, Customs programmed its general ledger system to record the use of appropriations for all transactions. As a result, during the year Customs accountants analyzed the various financing source and expenditure accounts and then manually reversed appropriations used and related net position accounts used for the special funds. These adjustments were necessary because Customs incorrectly recorded these transactions as appropriations used.

Additionally, Customs was unable to record a liability in the general ledger system upon receipt of goods and services. Accordingly, accounts payable were not established and related obligations were not liquidated in the system in a timely manner. As a result, manual procedures had to be used subsequent to the end of the fiscal year to determine \$86 million of the \$139 million recorded balances for intra-governmental and other accounts payable as of September 30, 1999.

- ACS Override Capabilities Certain ACS controls can be overridden without supervisory approval. For example, when an import specialist attempts to liquidate an import entry in ACS, the system displays a warning message, if appropriate, indicating that a drawback claim had been filed against the import entry. The purpose of this control is to ensure that both a refund and drawback are not paid on the same goods. However, import specialists could, without supervisory review, override the warning message and process a refund without investigating pending drawback claims. We also determined that import specialists could override system edits designed to detect refunds exceeding the total duty, tax, and fees paid on an import entry. ACS would require reprogramming to generate override reports for supervisory review.



- **Systems Integration** Customs' aircraft parts inventory system did not interface with the general ledger system to record the assets and related financing sources for aircraft parts inventory when purchased and costs when parts are used in operations. As a result, the accounting records did not accurately reflect the values of inventory balances or activity at any point in time throughout the year. During FY 1999, Customs recorded inventory additions in the general ledger when invoices were paid and recorded inventory consumption in the general ledger on a quarterly basis.

Additionally, Customs' Special Agent-in-Charge (SAIC) offices maintain separate accounting records for each covert operation. Because these accounting records were not integrated with the general ledger system, the financial results of covert operations are manually summarized and recorded in the general ledger on a monthly basis.

A long-term information strategy plan has been developed to serve as a guide for integrating financial systems. Customs is proceeding with the Quality Planning for Asset Management project which includes integrating various processes including budget, acquisition, and accounts payable.

## **Recommendations**

We reaffirm our recommendations from previous financial statement audits that Customs (a) ensure that any new systems initiatives include a "customer-based" accounts receivable subsidiary ledger that interfaces with the general ledger system, (b) implement standard procedures to record refunds or payments against the individual import entries associated with cost submissions, (c) develop a comprehensive plan to identify the modifications necessary to the general ledger system so that all financial transactions are captured as they occur, and (d) implement standard procedures to provide for appropriate supervisory review and authorization of critical ACS warning messages and other edit checks that can be overridden.

We are making the following new recommendations as a result of our fiscal year 1999 financial statement audit:

The Commissioner of Customs should ensure that the source data input into CMIS is refined to allow Customs to evaluate the accuracy of the budget estimates related to reimbursable charges for certain inspection positions and other reimbursable services.

### **2. Efforts To Ensure The Timely Restoration Of Mission-Critical Systems Need To Be Accelerated (Repeat Condition)**

Several significant deficiencies were identified in Customs' ability to provide for timely restoration of mission-critical systems that could impair Customs' ability to respond effectively to a disruption in operations. Without proper attention to service continuity, Customs risks losing the capability to process, retrieve, and protect information maintained electronically, thus significantly affecting its ability to accomplish its mission. Portions of this finding include repeat conditions relating to disaster recovery capabilities. Due to the sensitive nature of this matter, we are providing further details in a separate report with limited distribution.

## **REPORTABLE CONDITIONS**

### **3. Drawback Controls Need To Be Strengthened (Repeat Condition)**

Customs' controls over drawback continued to need improvement during FY 1999. Drawback payments are refunds of duties and taxes paid on imported goods that are subsequently exported or destroyed. Existing procedures over drawback should be strengthened and enforced to prevent duplicate, excessive, or otherwise improper drawback payments. Such procedures are essential because once drawback payments are made and the related claim is liquidated, Customs does not have legal authority to demand a return of overpaid drawback, unless fraud is determined.

Customs developed and formalized a policy on drawback processing in September 1997. However, as we noted in our prior year report, drawback specialists still did not consistently annotate, on the original import entry or invoice at the line item level, the quantity for which drawback was claimed. Furthermore, we noted that documentation supporting the drawback specialists' basis for approval was not always complete. For example,



we found that (a) drawback specialists did not consistently obtain proofs of export (shipping documents) from sampled Export Summary Procedure (ESP)<sup>1</sup> claimants before liquidating claims, (b) required information (e.g., carrier name, bill of lading numbers, etc.) for the exported merchandise upon which drawback was being claimed was not always provided by nor requested from ESP claimants, and (c) supervisory reviews and approval of claim payments were not consistently documented.

The September 1997 policy does not require drawback specialists to (a) review all prior claims against a selected import entry to determine whether, in the aggregate, excessive amounts had been claimed against import entries and, if applicable, import entry line items or invoices, or (b) statistically sample proofs of export from ESP claimants before liquidating drawback claims. Additionally, supervisory review policies were not consistent between drawback offices, resulting in the use of different documentation methods and thresholds above which review was required.

It should be noted that, as a compensating control, Customs' financial advisors statistically sample drawback payments and liquidations to determine whether claims (a) are properly prepared and supported and (b) do not exceed the duty and tax paid and the quantity available for drawback on related import entries and, if applicable, import entry line items when aggregated with previous claims filed against FY 1995 through FY 1999 entries. Customs plans to continue carrying out this compensating control into the future.

We reviewed Customs' methodology for this compensating control procedure, sampled the claims reviewed by Customs, and performed other drawback testing procedures. Based on our tests, we concurred with Customs' methodology and results that there were no significant duplicate, excessive, or otherwise improper drawback disbursements, on a national level, made during FY 1999. However, Customs' testing revealed, and we confirmed, that drawback payments made by the Boston Customs Management Center (CMC) lacked appropriate review, approval, and adequate supporting documentation. Specifically, the testing identified \$145,468 in overpayments out of a sample of \$2,029,260. In addition, the tests revealed 39 processing errors out of a sample of 47 items. These errors related to incorrect classification of entry type, lack of documented supervisory review, incomplete required documentation, and overpayments. Furthermore, supporting documentation for the sample selected was not easily accessible. As a result, an excessive amount of time and resources was required to identify and provide appropriate documentation for testing. Prior to the end of our fieldwork, Customs developed a draft corrective action plan effective in FY 2000 to address these findings at the Boston CMC.

## Recommendations

We reaffirm the recommendations from our previous financial statement audit that Customs needs to (a) implement effective controls over drawback claims as part of any new systems initiatives, (b) consistently adhere to the formal policy on drawback processing, issued in September 1997, (c) amend the formal policy to specifically require, in a consistent manner, drawback specialists to (1) review all prior claims against a selected import entry to determine whether, in the aggregate, excessive amounts had been claimed against import entries and, if applicable, the import entry line item or invoice; (2) statistically sample proofs of export from ESP claimants before liquidating drawback claims; and (3) establish standard guidelines/thresholds for evidence of supervisory review.

We are making the following new recommendations as a result of our fiscal year 1999 financial statement audit:

The Commissioner of Customs should ensure that:

1. The Boston CMC processes drawback disbursements in accordance with the drawback policy.
2. The Boston CMC rearranges its current filing system to enable reasonable access and retrieval of documentation.

<sup>1</sup> Claimants may file under Export Summary Procedure and provide a representation that the goods, for which drawback was claimed, were exported -- as opposed to submitting shipping documents and other detailed support. ESP claimants are required to provide Customs with proof of export upon request.



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#### 4. Compliance Measurement Programs Need To Be Comprehensively Implemented To Identify The Revenue Gap And Assess Trade Law Compliance (Repeat Condition)

During fiscal year 1999, Customs continued its statistically-based examination programs, referred to as compliance measurement programs (CMP). CMPs are designed to quantify the revenue gap and assess trade law compliance. Among Customs' most critical CMPs are: (a) the consumption entry CMP, which projects revenue over- and under-collection, (b) the carrier manifest CMP, which measures the accuracy of carrier reporting of cargo arriving in the United States, (c) the bonded warehouse CMP, which measures compliance by bonded warehouse operators, and (d) the in-bond CMP, which measures the accuracy of cargo information for merchandise allowed to move within the United States without classification or appraisalment.

During FY 1999, based on examination results from its consumption entry CMP, Customs projected \$383 million in revenue under-collections and \$131 million in revenue over-collections. Because these amounts are statistical projections and, as a result, there are no known non-compliant importers for which a legally enforceable claim or refund can be assessed, an accounts receivable or accounts payable cannot be recognized as they do not meet the criteria under generally accepted accounting principles.

We noted the following weaknesses concerning the compliance measurement program: (a) Customs did not subject all entered cargo to the consumption entry CMP, (b) Customs did not complete the FY 1998 bonded warehouse CMPs until FY 2000, (c) Customs has not conducted CMP examinations on FY 1999 bonded warehouse entries, (d) Customs has not formulated a CMP for Foreign Trade Zones (FTZ), and (e) Customs has not conducted the air carrier manifest CMP since the end of FY 1998. Although Customs implemented the in-bond CMP (Tinman), Customs was still unable to ensure that goods moving in-bond were not diverted into the United States commerce without proper classification and appraisalment. Specific weaknesses in the CMPs are described below.

In previous financial statement audits, we determined that the consumption entry CMP did not subject cargo valued by importers at under \$2,001, the formal entry limit, to cargo examination selection. This presented a risk that importers could knowingly circumvent Customs controls, thereby avoiding the proper payment of duties, taxes and fees. To evaluate this risk, Customs conducted a study of cargo entry lines with electronically transmitted values under \$2,001, from June 9, 1999 to August 24, 1999, to determine whether importers understated entry values to avoid physical examination. Preliminary results indicated that a) although not required by the study, over 280 physical examinations of merchandise were performed for the 1,186 line items sampled without error, and b) only one, or .08 percent, of the lines sampled was incorrectly valued under \$2,001. Customs plans to conduct further analysis of the results of this study. We will evaluate Customs' final report on this study during our audit of Customs FY 2000 financial statements.

Our audit also identified that Customs did not track merchandise quantities in ACS moving to and from bonded warehouses and FTZs. Moreover, Customs ports did not consistently perform spot checks as required to ensure that the proprietors of these facilities maintained accurate inventory records and complied with other Customs requirements. These weaknesses may result in goods being diverted into the United States commerce from bonded warehouses and FTZs without Customs' knowledge and proper assessment of duties, taxes, and fees. Our prior year audit included the recommendation that Customs develop and implement a CMP for FTZs; however Customs has stated that this is not feasible since the Application for Foreign-Trade-Zone Admission and/or Status Designation (Customs Form 214) is not automated. In our report *United States Customs Service Oversight of Foreign Trade Zones Activity* (OIG-00-015, issued December 22, 1999), we recommended that Customs assess its ability to develop automated CF-214 reporting. Customs responded that it was in the early stages of developing an automated CF-214. This would enable Customs to then develop and implement a CMP for FTZs.

In addition, Customs has not conducted the air carrier manifest CMP since FY 1998. Accordingly, Customs lacked sufficient assurance as to the reliability of cargo information reported on manifest documentation. Customs developed a CMP plan that was to be implemented at the beginning of FY 1999. However, implementation was delayed pending agreement on unresolved labor issues. As a result, Customs management had to further refine the carrier manifest CMP. It should be noted that Customs resumed the sea carrier manifest CMP on March 1, 1999.





Customs implemented the Tinman CMP in September 1998 to mitigate the weaknesses noted in our prior year financial statement audits. Although improvements have been made, we identified the following weaknesses relating to the Tinman CMP:

- The Tinman CMP provides only for a description and quantity verification of in-bond shipments. Improvements are needed to provide Customs assurance that imported merchandise transactions were not diverted into the commerce of the United States without assessment of duties, taxes, and fees.
- The Tinman CMP does not require random selection of in-bond shipments for physical examination. Although the date and time of the examinations are randomly selected, the actual in-bond shipments are selected judgmentally; thus, creating a biased sample. We also noted that the inspectors, at the ports we visited, only selected manually-filed in-bond shipments for physical examination, thereby neglecting the universe of electronically-filed in-bond shipments. Consequently, the results of the examinations performed may not provide Customs with reasonable assurance on the controls over in-bond shipments.
- The ACS INRA screen, which reports the results of physical examinations, lacks a remarks section for non-discrepant shipments. Such an enhancement would provide a means for communicating additional or clarifying information that could facilitate post audit reviews.
- During FY 1999, Customs performed 609 physical examinations and thousands of 60- and 90-day post-audit reviews. However, Customs has not analyzed the results of the FY 1999 examinations nor the post-audit reviews. As a result, Customs is unable to determine whether the number of physical examinations was sufficient or if its policy to systematically close all open in-bond transactions after 120 days is appropriate.

CMPs for these areas are essential to ensure accountability over imported goods processed within or entered into the United States commerce, or held by, and withdrawn from bonded warehouses and FTZs. Until Customs fully implements a comprehensive set of CMPs, it lacks the information needed to adequately focus its trade compliance efforts.

### **Recommendations**

We reaffirm our recommendation from previous financial statement audits that Customs implement objective programs to measure compliance for all areas of trade and user fee laws that have significant revenue gap implications. We recommend that the Commissioner of Customs ensure that: (a) bonded warehouse CMPs are conducted for FY 1999, the results are fully analyzed, and appropriate actions taken, (b) once the CF-214s are automated, a CMP is formulated and conducted for FTZs, and (c) air carrier manifest CMPs are resumed.

We are making the following new recommendations as a result of our fiscal year 1999 financial statement audit:

The Commissioner of Customs should ensure that:

1. Customs completes its study of cargo valued by importers at under \$2,001 that was conducted during FY 1999.
2. Customs finalizes and implements its draft policy on the Foreign-Trade Zone Compliance Check Program.
3. Improvements are made to the Tinman CMP post-audit review process to verify the appropriate resolution of in-bond transactions, e.g., review of entry and export documents.
4. Procedures for the Tinman CMP are implemented to provide a random sample of shipments selected for examination.
5. AMS is enhanced to allow for the entry of remarks relating to non-discrepant Tinman examinations and require all inspectors to report any details that would facilitate post audit reviews.
6. The results of the Tinman CMP are analyzed to include the determination of the sufficiency of the number of physical examinations performed during the fiscal year.



7. Once the draft procedures for post-audit reviews are implemented and have been in place for a reasonable period of time, the results of the post-audit reviews are summarized and analyzed to determine whether the number of reviews is sufficient and the propriety of the 120-day in-bond closure policy.

## **5. Controls Over Bills Of Lading And In-Bond Shipments Need To Be Strengthened (Repeat Condition)**

Controls over open bills of lading and open in-bond shipments continued to need improvement during fiscal year 1999. A bill of lading remains open in ACS until all imported merchandise on the bill of lading is recorded as either (a) released into the commerce of the United States; (b) authorized to move in-bond, to a bonded warehouse, or to a foreign trade zone (FTZ); or (c) exported. In-bond shipments remained open in ACS until the shipment is either recorded as having arrived at the intended port of destination or exported. Because open in-bond transactions could represent merchandise that was diverted into the United States commerce without assessment of duties, taxes and fees, controls over in-bond shipments should be strengthened to ensure that revenue is not lost.

Notwithstanding the advent of an in-bond CMP, or Tinman, Customs is still unable to ensure that goods moving in-bond were not substituted or diverted into the United States commerce without proper assessment. As a compensating control, Customs statistically sampled the open in-bond transactions to determine whether they represented merchandise that should have been assessed but was not. However, as of the end of our fieldwork, Customs had not been able to obtain documentation supporting approximately 10% of the transactions in its sample. Without this documentation, Customs was not able to determine whether these open transactions represented a potential loss of revenue to the United States government. Subsequently, through an intensive effort, Customs was able to obtain supporting documentation for all but 18 (4%) of the items in its sample.

In addition, as noted in previous audit reports, our tests revealed that ACS could not match open transactions to events that would enable them to appropriately close. Customs' tests identified, and we confirmed that, for a significant number of the open transactions, this was caused by errors relating to the input of merchandise quantities and bills of lading by trade participants and Customs personnel. Due to a lack of appropriate system edits, these transactions could not be appropriately matched and closed in the system. Additionally, we noted that carriers and importers are still permitted to record imported merchandise in different units of measure (e.g., pounds vs. kilograms, pallets vs. boxes, etc.) on Customs documents. These input errors and inconsistencies in units of measure prevented the timely closure of open merchandise transactions.

### **Recommendations**

We reaffirm the recommendations from our previous financial statement audits that Customs correct operational and ACS system weaknesses that make it difficult to ensure the appropriate resolution of open merchandise transactions.

We are making the following new recommendation as a result of our fiscal year 1999 financial statement audit:

The Commissioner of Customs should ensure that Customs reviews its FY 1999 testing of open in-bond transactions to determine the reason that supporting documentation for certain transactions in its sample could not be provided either in a timely manner or at all, and that appropriate policies and procedures be implemented to correct the problem.

## **6. Accountability Controls Over Seized Property Inventory Need Improvement**

Nine narcotic seizure line items could not be located or accounted for at the Otay Mesa seized property storage vault located in San Diego, CA, when Customs performed its FY 1999 seized property inventory in September 1999. Narcotic and weapon evidence must be accounted for completely, accurately, and timely to ensure that such evidence is not compromised for federal prosecution purposes and is protected against the risk of theft, misuse, or loss.

According to personnel from Customs' Fines, Penalties, & Forfeitures (FP&F) Branch, six of the nine seizure line items were identified as missing during the FY 1998 inventory; however, Internal Affairs (IA) was not notified.



Customs' policy requires that after the completion of annual physical inventory verifications, IA is to be notified of all missing property and any narcotics with a weight discrepancy greater than the pre-established tolerances. Upon completion of the FY 1998 inventory, IA was only alerted to the identified weight discrepancies, but not the six missing seizure line items. The remaining three missing seizure line items were identified during the FY 1999 physical inventory verification. IA was notified of the nine missing seizure line items at the conclusion of the FY 1999 inventory.

Customs' FP&F personnel believe that the seizures may have been destroyed and the documentation lost through an administrative error. As a result, a complete search of destruction records for the last 3 years is being performed. However, the chain of custody documentation for all of the missing seizures indicates that the seizures should be located in the storage vault.

The resolution of these cases is pending an ongoing investigation by IA. As it is Customs policy not to disclose any information related to an ongoing investigation, we were not able to obtain information about the status of the nine missing seizures.

### **Recommendations**

The Commissioner of Customs should ensure that:

1. The investigation into the missing seizures determines the reason that the six seizures identified as missing during the FY 1998 annual physical inventory verification were not reported to IA.
2. The current investigation is completed expeditiously, and that appropriate action is taken as a result of the investigative findings.

## **7. Entity-Wide Security Program Planning And Management Needs To Be Improved**

Customs did not establish a framework to assess risk, develop and implement effective security procedures, or monitor the effectiveness of these procedures, on a continual basis. Customs did not assess the risk to its computer resources at its Data Center as well as at other remote computer locations. Customs did not fully comply with its policy regarding the appointment of computer security officers (CSO), nor the development and administration of formal training for CSOs and network security administrators (NSA). Additionally, Customs had a defined capability for identifying incidents as suggested by the National Institute of Standards and Technology; however, the policy was not finalized during FY 1999, nor were the procedures for implementing the policy developed. As of the date of this report, Customs was in the process of completing "certification and accreditation" (C&A) and re-accreditation of its systems.

Customs did not perform formal risk assessments on its Data Center configurations nor on any of the 20 CMCs or remote computer locations throughout the United States. Also, Customs did not fully implement the requirement for CSOs according to its Automated Information Systems Security Policy. We also determined that CSOs are not being trained on a consistent basis. Customs' Office of Information Technology (OIT) training office did not develop or administer formal training classes for its CSOs or NSAs.

We also noted that Customs had not fully documented an incident response capability. The Computer Security Incident Response Capability (CSIRC) policy was in draft mode and therefore had not been formally approved and implemented. Also, the procedures referenced in the CSIRC Operations Handbook were not developed. This Operations Handbook will provide the day to day operating procedures to be followed in implementing the policies contained in the CSIRC policy. During FY 1999, Customs personnel relied on informal and undocumented procedures.

As of the date of this report, Customs was in the process of completing a C&A of its new systems and applications and the re-accreditation of its existing (legacy) systems and applications. However, guidance regarding the requirements for completing the C&As was not broadly understood and accepted, and we found compliance with the security requirements to be incomplete. Without a defined set of System Development Life Cycle (SDLC) - C&A documents, the true risks and vulnerabilities of the legacy mission critical software applications will not be identified for the OIT system owners, process owners, or CSOs to make a meaningful



review of the risk of continued operations. We estimate that many of these mission critical legacy software applications will be in operation for at least another 5 years.

## **Recommendations**

The Commissioner of Customs should ensure that:

1. The risk assessments task project be given a high priority and that adequate resources are made available in FY 2000 to conduct a formal risk assessment for the Data Center computer site configurations, the 20 CMCs, and the other mission critical remote data entry locations.
2. Customs fully implements the CSO position to cover all major areas of information systems security.
3. Customs' OIT training management assigns a high priority to the following:
  - a. Developing security and network individual development plans (IDP) for all CSOs and NSAs in computer and network security subject areas.
  - b. Providing appropriate training for CSOs, NSAs, and employees responsible for contingency planning (after the IDP development phase).
  - c. Updating the computer based training course currently used for both new employees' awareness and annual refresher training to reflect changes in Customs' security policy and rules of behavior contained in its new and revised security policy.
  - d. Revising and updating the new employees Security Handbook to reflect the new policies and rules of behavior.
4. Customs' management completes the review and approval of the CSIRC policy.
5. Customs' management develops and implements the CSIRC Operations Handbook.
6. Customs completes the C&A of its new systems and applications and the re-accreditation of its existing (legacy) systems and applications.
7. The guidance in the Automated Information Systems Security Policy Handbook is expanded to address on-going maintenance (life support) of legacy security certification and accreditation requirements and ensure integration with the SDLC handbook.

## **8. Logical Access Controls Need To Be Improved (Repeat Condition)**

We identified several deficiencies in Customs' logical access controls over its data files, application programs, and computer-related facilities and equipment. Such controls protect against unauthorized modification, disclosure, loss, or impairment. We determined that system programmers had been granted inappropriate update access to production data through its CA-Top Secret profiles. Due to the sensitive nature of this matter, we are providing further details in a separate report with limited distribution.

## **9. Application Software Development And Change Controls Need To Be Fully Implemented For Legacy Applications and/or Systems (Repeat Condition)**

During our audit, we noted that Customs made progress in instituting policies, procedures, and techniques to ensure that all new programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs are carefully controlled. While progress was observed in the area of application controls, Customs controls over system software and infrastructure changes were not fully implemented. The policies and procedures established in Customs' SDLC standards and guidance were not applied to the total inventory of systems software applications. Specifically, policies and procedures to identify, select, install, and modify system software on the OS 390 system have not been documented. Formalized policies and procedures should be applied to mainframe computers, networks, telecommunications software, all software tools, system software utilities, data base management system software and all commercial system



software packages that are included in the inventory maintained by Customs' Systems Engineering Branch and Systems Operations Branch.

Also, from our follow-up on previous audit recommendations, we noted that ACS documentation was still inadequate. However, in FY 1999 Customs made progress on a Master Schedule to complete ACS documentation by the second quarter of FY 2001.

### **Recommendations**

We reaffirm our recommendations from previous financial statement audits that Customs (a) update ACS systems documentation to an acceptable level so as to allow users to adequately operate and maintain the system, (b) implement procedures to ensure that appropriate documentation is maintained for all major applications and general support systems, and (c) implement procedures to provide for appropriate end-user training and communication of systems changes.

We are making the following new recommendation as a result of our FY 1999 financial statement audit:

The Commissioner of Customs should ensure that the OIT establishes and implements a strong configuration management policy that covers all aspects of Customs automated resources, specifically ensuring the application of and adherence to SDLC policies and procedures for infrastructure systems.

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Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

### **COMPLIANCE WITH LAWS AND REGULATIONS**

The results of our tests of compliance with laws, regulations, and other government-wide requirements, exclusive of FFMIA, disclosed one instance of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards*, as amended, and OMB Bulletin No. 98-08, as amended. This instance is described below:

The Chief Financial Officers Act of 1990 requires Customs to conduct a biennial review to determine the appropriateness of fees and other charges imposed by it for services and things of value it provides, and to make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value. For FY 1999, Customs completed the first of a two phase process that is intended to: (1) review the appropriateness of the fees, and (2) if necessary, to revise those fees to reflect costs incurred in providing the related services. Customs completed its determination of the propriety of the fees, however, it was unable to revise certain fees to reflect costs incurred during FY 1999. Therefore, Customs is not in full compliance with the CFO Act. Customs plans to initiate actions to recommend changes to the fees or to make the necessary revisions to these fees in FY 2000. See the related cost accounting weaknesses discussed on page 46 in the Internal Control section of this report.

In addition, the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 requires a biennial review and reporting of its COBRA charges every even numbered fiscal year. We reported in last year's audit that Customs had not complied with this requirement. During FY 1999, Customs reviewed the appropriateness of COBRA fees as part of the biennial review described above, however, it did not make recommendations for changes to those fees.

Except for the instance described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws, regulations, and government-wide requirements, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards*, as amended, or OMB Bulletin No. 98-08, as amended.

The results of our tests disclosed instances where Customs' financial management systems did not substantially comply with the financial management systems requirements referred to in FFMIA. The instances summarized below are discussed in more detail along with Customs' planned remedial actions and time frames to implement such actions in the





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section titled "Federal Managers' Financial Integrity Act (FMFIA) Summary" on pages 40-42 of the *U.S. Customs Service Fiscal Year 1999 Accountability Report*.

- Customs' core financial systems do not provide complete and accurate information for financial reporting and preparation of audited financial statements.
- Several weaknesses were identified in Customs' electronic data processing general controls in the areas of: (1) timely restoration of its mission-critical systems; (2) logical access controls over its data files, application programs, and computer-related facilities and equipment; (3) application software development and program modifications; and (4) entity-wide security program.

This report is intended solely for the information and use of the management of Customs, the U.S. Department of the Treasury, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

A handwritten signature in black ink that reads "William H. Pugh".

William H. Pugh  
Deputy Assistant Inspector General for Audit (Financial Management)  
January 21, 2000



# Financial Statements

## Department of the Treasury, United States Customs Service Balance Sheet As of September 30, 1999 and 1998 (Dollars in Thousands)

|   | 1999               | 1998               |
|---|--------------------|--------------------|
| <b>ASSETS</b>   |                    |                    |
| <b>Entity Assets:</b>   |                    |                    |
| <b>Intra-governmental Assets</b>                                      |                    |                    |
| Fund balance with Treasury (Note 2)                                   | \$1,692,279        | \$1,427,740        |
| Accounts receivable (Note 4)  | 21,070             | 32,114             |
| Advances and prepayments  | 26,404             | 30,540             |
| <b>Total Intra-governmental Assets</b>                                | <u>1,739,753</u>   | <u>1,490,394</u>   |
| Accounts receivable, net (Note 4)                                     | 73,600             | 72,222             |
| Advances  | 4,780              | 1,724              |
| Inventory and related property (Note 5)                               | 38,222             | 50,946             |
| Property, plant and equipment, net (Note 6)                           | 401,807            | 387,216            |
| <b>Total Entity Assets</b>  | <u>2,258,162</u>   | <u>2,002,502</u>   |
| <b>Non-Entity Assets:</b>   |                    |                    |
| <b>Intra-governmental Assets</b>                                      |                    |                    |
| Fund balance with Treasury (Note 2)                                   | 1,032,419          | 963,558            |
| Accounts receivable, net (Note 4)                                     | --                 | 31                 |
| <b>Total Intra-governmental Assets</b>                                | <u>1,032,419</u>   | <u>963,589</u>     |
| Cash and other monetary instruments (Note 3)                          | 145,043            | 103,383            |
| Accounts receivable, net (Note 4)                                     | 921,327            | 871,170            |
| Other   | 5,722              | 6,189              |
| <b>Total Non-Entity Assets</b>  | <u>2,104,511</u>   | <u>1,944,331</u>   |
| <b>TOTAL ASSETS</b>   | <u>\$4,362,673</u> | <u>\$3,946,833</u> |
| <b>LIABILITIES</b>  |                    |                    |
| <b>Liabilities Covered by Budgetary and Other Resources:</b>          |                    |                    |
| <b>Intra-governmental Liabilities</b>                                 |                    |                    |
| Accounts payable  | \$ 35,899          | \$ 11,877          |
| Due to the General Fund and others                                    | 1,727,782          | 1,558,179          |
| Advances from others  | 16,470             | 23,311             |
| <b>Total Intra-governmental Liabilities</b>                           | <u>1,780,151</u>   | <u>1,593,367</u>   |
| Accounts payable  | 102,661            | 111,769            |
| Refunds payable (Note 7)  | 248,488            | 297,098            |
| Advances from others  | 92,691             | 44,244             |
| Accrued payroll and benefits  | 69,638             | 75,723             |
| Contingencies (Note 8)  | 47,050             | 58,776             |
| <b>Total Liabilities Covered by Budgetary and Other Resources</b>     | <u>2,340,679</u>   | <u>2,180,977</u>   |
| <b>Liabilities Not Covered by Budgetary and Other Resources:</b>      |                    |                    |
| <b>Intra-governmental Liabilities</b>                                 |                    |                    |
| Workers' compensation   | 41,452             | 40,906             |
| Other   | --                 | 6,968              |
| <b>Total Intra-governmental Liabilities</b>                           | <u>41,452</u>      | <u>47,874</u>      |
| Workers' compensation actuarial                                       | 181,822            | 172,803            |
| Accrued annual leave  | 97,428             | 94,112             |
| Other (Notes 8 and 9)   | 5,114              | 5,815              |
| <b>Total Liabilities Not Covered by Budgetary and Other Resources</b> | <u>325,816</u>     | <u>320,604</u>     |
| <b>TOTAL LIABILITIES</b>  | <u>2,666,495</u>   | <u>2,501,581</u>   |
| <b>NET POSITION (Note 10)</b>   |                    |                    |
| Unexpended appropriations   | 723,951            | 428,311            |
| Cumulative results of operations                                      | 972,227            | 1,016,941          |
| <b>TOTAL NET POSITION</b>   | <u>1,696,178</u>   | <u>1,445,252</u>   |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                             | <u>\$4,362,673</u> | <u>\$3,946,833</u> |

The accompanying notes are an integral part of these statements.



Department of the Treasury, United States Customs Service  
Statement of Net Cost  
For the Years Ended September 30, 1999 and 1998  
(Dollars in Thousands)

|   | 1999               | 1998               |
|---|--------------------|--------------------|
| <b>COSTS:</b>                           |                    |                    |
| <b>Program:</b>                         |                    |                    |
| <b>PASSENGER PROCESSING</b>             |                    |                    |
| Intra-governmental costs                | \$ 235,308         | \$ 134,793         |
| With the Public                         | <u>404,471</u>     | <u>436,415</u>     |
| Total Costs                             | 639,779            | 571,208            |
| Less earned revenue                     | <u>(74,758)</u>    | <u>(69,998)</u>    |
| <b>Net Program Costs</b>                | <u>565,021</u>     | <u>501,210</u>     |
| <b>Program:</b>                         |                    |                    |
| <b>TRADE COMPLIANCE</b>                 |                    |                    |
| Intra-governmental costs                | 358,234            | 205,822            |
| With the Public                         | <u>615,613</u>     | <u>664,826</u>     |
| Total Costs                             | 973,847            | 870,648            |
| Less earned revenue                     | <u>(113,633)</u>   | <u>(106,663)</u>   |
| <b>Net Program Costs</b>                | <u>860,214</u>     | <u>763,985</u>     |
| <b>Program:</b>                         |                    |                    |
| <b>OUTBOUND</b>                         |                    |                    |
| Intra-governmental costs                | 28,768             | 23,986             |
| With the Public                         | <u>49,302</u>      | <u>78,332</u>      |
| Total Costs                             | 78,070             | 102,318            |
| Less earned revenue                     | --                 | --                 |
| <b>Net Program Costs</b>                | <u>78,070</u>      | <u>102,318</u>     |
| <b>Program:</b>                         |                    |                    |
| <b>ENFORCEMENT</b>                      |                    |                    |
| Intra-governmental costs                | 326,684            | 159,387            |
| With the Public                         | <u>493,270</u>     | <u>584,889</u>     |
| Total Costs                             | 819,954            | 744,276            |
| Less earned revenue                     | <u>(25,525)</u>    | <u>(31,045)</u>    |
| <b>Net Program Costs</b>                | <u>794,429</u>     | <u>713,231</u>     |
| <b>NET COST OF OPERATIONS (Note 11)</b> | <u>\$2,297,734</u> | <u>\$2,080,744</u> |

The accompanying notes are an integral part of these statements.



**Department of the Treasury, United States Customs Service**  
**Statement of Changes in Net Position**  
**For the Years Ended September 30, 1999 and 1998**  
**(Dollars in Thousands)**

|   | <u>1999</u>               | <u>1998</u>               |
|---|---------------------------|---------------------------|
| <b>Net Cost of Operations</b>                           | <b>\$2,297,734</b>        | <b>\$2,080,744</b>        |
| <b>Financing Sources</b>                                |                           |                           |
| Appropriations used                                     | 1,859,498                 | 1,717,705                 |
| Non-exchange revenue                                    | 272,561                   | 295,364                   |
| Imputed financing                                       | 105,710                   | 114,734                   |
| Transferred in without reimbursement                    | 15,547                    | 7,195                     |
| Transferred out without reimbursement                   | <u>(129)</u>              | <u>(275)</u>              |
| <b>Total Financing Sources</b>                          | <b><u>2,253,187</u></b>   | <b><u>2,134,723</u></b>   |
| <b>Net Results of Operations</b>                        | <b>(44,547)</b>           | <b>53,979</b>             |
| <b>Other/Prior Period Adjustments (Note 12)</b>         | <b><u>(167)</u></b>       | <b><u>(18,000)</u></b>    |
| <b>Net Change in Cumulative Results of Operations</b>   | <b>(44,714)</b>           | <b>35,979</b>             |
| <b>Increase (Decrease) in Unexpended Appropriations</b> | <b><u>295,640</u></b>     | <b><u>(46,737)</u></b>    |
| <b>Change in Net Position</b>                           | <b>250,926</b>            | <b>(10,758)</b>           |
| <b>Net Position-Beginning of Period</b>                 | <b><u>1,445,252</u></b>   | <b><u>1,456,010</u></b>   |
| <b>Net Position-End of Period</b>                       | <b><u>\$1,696,178</u></b> | <b><u>\$1,445,252</u></b> |

The accompanying notes are an integral part of these statements.



**Department of the Treasury, United States Customs Service**  
**Statement of Budgetary Resources**  
**For the Years Ended September 30, 1999 and 1998**  
**(Dollars in Thousands)**

|  | <u>1999</u>               | <u>1998</u>               |
|--|---------------------------|---------------------------|
| <b>Budgetary Resources (Note 13):</b>                                |                           |                           |
| Budget authority   | \$2,419,493               | \$2,047,231               |
| Unobligated balance – beginning of period                            | 945,141                   | 957,220                   |
| Spending authority earned  | 190,384                   | 229,128                   |
| Adjustments  | 181,812                   | 131,912                   |
| <b>Total Budgetary Resources</b>                                     | <b><u>\$3,736,830</u></b> | <b><u>\$3,365,491</u></b> |
| <b>Status of Budgetary Resources (Note 13):</b>                      |                           |                           |
| Obligations incurred   | \$2,632,144               | \$2,424,675               |
| Unobligated balance available  | 421,440                   | 273,277                   |
| Unobligated balance not available                                    | 683,246                   | 667,539                   |
| <b>Total Status of Budgetary Resources</b>                           | <b><u>\$3,736,830</u></b> | <b><u>\$3,365,491</u></b> |
| <b>Outlays:</b>  |                           |                           |
| Obligations  | \$2,632,144               | \$2,424,675               |
| Less: Spending authority from offsetting collections and adjustments | (395,437)                 | (407,236)                 |
| Obligated balance – beginning of period                              | 480,555                   | 392,124                   |
| Less: Obligated balance, net – end of period                         | (576,591)                 | (480,555)                 |
| <b>Total Outlays</b>   | <b><u>\$2,140,671</u></b> | <b><u>\$1,929,008</u></b> |

The accompanying notes are an integral part of these statements.





**Department of the Treasury, United States Customs Service**  
**Statement of Financing**  
**For the Years Ended September 30, 1999 and 1998**  
**(Dollars in Thousands)**

|  | <u>1999</u>        | <u>1998</u>        |
|--|--------------------|--------------------|
| <b>Obligations and Nonbudgetary Resources</b>  |                    |                    |
| Obligations incurred   | \$2,632,144        | \$2,424,675        |
| Less: Spending authority from offsetting collections and adjustments                       | (395,437)          | (407,236)          |
| Financing imputed for cost subsidies   | 105,710            | 114,734            |
| Transfers-in (out)   | <u>15,418</u>      | <u>6,920</u>       |
| <b>Total Obligations As Adjusted and Nonbudgetary Resources</b>                            | <u>2,357,835</u>   | <u>2,139,093</u>   |
| <b>Resources That Do Not Fund Net Cost of Operations</b>                                   |                    |                    |
| Change in amount of goods, services, and benefits ordered but not yet received or provided | (62,876)           | (20,975)           |
| Costs capitalized on the Balance Sheet   | (122,235)          | (136,950)          |
| Financing sources that fund costs of prior periods   | <u>--</u>          | <u>(242)</u>       |
| <b>Total Resources That Do Not Fund Net Cost of Operations</b>                             | <u>(185,111)</u>   | <u>(158,167)</u>   |
| <b>Costs That Do Not Require Resources</b>   |                    |                    |
| Depreciation and amortization  | 54,052             | 56,097             |
| Inventory used in operations   | 50,903             | 37,953             |
| Other  | <u>14,843</u>      | <u>2,226</u>       |
| <b>Total Costs That Do Not Require Resources</b>   | 119,798            | 96,276             |
| <b>Financing Sources Yet To Be Provided (Note 14)</b>                                      | <u>5,212</u>       | <u>3,542</u>       |
| <b>Net Cost of Operations</b>  | <u>\$2,297,734</u> | <u>\$2,080,744</u> |

The accompanying notes are an integral part of these statements.



**Department of the Treasury, United States Customs Service**  
**Statement of Custodial Activity**  
**For the Years Ended September 30, 1999 and 1998**  
**(Dollars in Thousands)**

|   | <u>1999</u>              | <u>1998</u>              |
|---|--------------------------|--------------------------|
| <b>SOURCES OF CUSTODIAL REVENUE AND COLLECTIONS</b> |                          |                          |
| Revenue Received:                                   |                          |                          |
| Duty  | \$ 19,055,239            | \$ 19,118,137            |
| User fees   | 1,515,936                | 1,578,811                |
| Excise taxes  | 1,457,836                | 1,273,350                |
| Fines and penalties                                 | 56,835                   | 57,448                   |
| Interest  | 31,543                   | 27,021                   |
| Other   | 14,673                   | 17,190                   |
| <b>Total Revenue Received</b>                       | <u><b>22,132,062</b></u> | <u><b>22,071,957</b></u> |
| Less: Refunds and other payments (Note 15)          | <u>(1,159,553)</u>       | <u>(1,387,008)</u>       |
| <b>NET REVENUE RECEIVED</b>                         | <u><b>20,972,509</b></u> | <u><b>20,684,949</b></u> |
| Accrual Adjustment                                  | <u>98,736</u>            | <u>(195,521)</u>         |
| <b>TOTAL CUSTODIAL REVENUE</b>                      | <u><b>21,071,245</b></u> | <u><b>20,489,428</b></u> |
| <b>DISPOSITION OF REVENUE RECEIPTS</b>              |                          |                          |
| Amounts Transferred:                                |                          |                          |
| U.S. Department of the Treasury                     | 20,793,602               | 20,498,138               |
| U.S. Department of Agriculture                      | 66,487                   | 62,847                   |
| Retained by U.S. Customs Service                    | 49,344                   | 50,707                   |
| Other Federal agencies                              | 61                       | 73                       |
| Government of Puerto Rico                           | 58,830                   | 70,581                   |
| Government of the U.S. Virgin Islands               | 4,185                    | 2,603                    |
| Accrual adjustment                                  | 98,736                   | (195,521)                |
| <b>TOTAL DISPOSITIONS OF REVENUE RECEIPTS</b>       | <u><b>21,071,245</b></u> | <u><b>20,489,428</b></u> |
| <b>NET CUSTODIAL REVENUE ACTIVITY</b>               | <u><b>\$ 0</b></u>       | <u><b>\$ 0</b></u>       |

The accompanying notes are an integral part of these statements.



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## Department of the Treasury, United States Customs Service Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### Reporting Entity

Customs collects revenues on behalf of the Federal Government. Substantially all of the revenues collected by Customs are remitted to the General Fund, maintained by Treasury, and are typically recorded in 26 accounts. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. Customs transfers the remaining revenue (generally less than two percent of revenues collected) to other Federal agencies, including the U.S. Department of Agriculture (USDA), and the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity/custodial responsibilities that Customs, as an agency of the Federal government, has been authorized by law to enforce.

The U.S. Customs Service (Customs), with headquarters in Washington, D.C., was created in 1789 and is now a part of the U.S. Department of the Treasury (Treasury). Customs is primarily responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. Customs primary responsibilities include: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States, (2) assessing and collecting duties, excise taxes, fees, and penalties due on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Operating and other costs incurred from the activities described above are funded principally through congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred and, therefore, recorded as expenses are offset by appropriated funds that are recorded as financing sources or by reimbursable revenue, user fee revenue, or other financing sources. These operational activities are reflected in the entity accounts of Customs.

The Federal Account Symbols and Titles of Customs entity and non-entity accounts are presented in the Required Supplementary Information Section of this report.

#### Basis of Accounting and Presentation

The Chief Financial Officers Act of 1990 included a requirement for Customs to begin preparing audited financial statements for the fiscal year ending 1992. Beginning with the FY 1996 report, the Government Management Reform Act of 1994 (GMRA) required executive agencies, including Treasury to produce audited consolidated financial statements for activities and funds. Additionally, as provided by GMRA, the Director of the Office of Management and Budget included Customs in their designation of agencies to have agency financial audits performed.

The financial statements have been prepared from Customs accounting records in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the OMB in Bulletin 97-01. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by Customs, pursuant to OMB directives that are used to monitor and control Customs use of budgetary resources.

These financial statements are provided to meet the requirements of the GMRA. They consist of the balance sheet, statement of net cost, statement of changes in net position, statement of budgetary resources, statement of financing, and statement of custodial activity; all of which are prescribed by OMB Bulletin 97-01, Form and Content of Agency Financial Statements, as amended.



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## Department of the Treasury, United States Customs Service

### Notes to Financial Statements (continued)

While these financial statements have been prepared from Customs books and records in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

#### **Entity Component of the Financial Statements**

Customs entity Financial Statements with respect to the balance sheet, the statement of net cost, and the statement of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Customs Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future period. Customs Statement of Financing reconciles differences between the budgetary and accrual bases of accounting. Intra-entity transactions have been eliminated and the statements report consolidated balances.

#### **Non-Entity Component of the Financial Statements**

Customs non-entity revenue reported through the statement of custodial activities is reported on a modified cash basis, reflecting accruals for tax/trade receivables. Refunds of duties, taxes and fees are also reported on a modified cash basis, which includes accruals for refunds payable.

#### **Entity**

##### **Assets and Liabilities**

Entity intra-governmental assets and liabilities represent activity with other Federal agencies. All other entity assets and liabilities represent activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments outside the U.S. Government.

##### **Fund Balance with Treasury**

Fund balances with Treasury are the amounts remaining as of fiscal year-end from which Customs is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law.

##### **Entity Intra-governmental Accounts Receivables**

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected.

##### **Entity Accounts Receivables**

Entity accounts receivable from reimbursable services and user fees represent amounts due for services performed. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity.



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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**Advances**

Intra-governmental advances consist of: (1) advances expected to be returned without expenditure; and (2) amounts paid to Federal agencies prior to Customs receiving goods and services. All other advances consist of: (1) travel and salary advances to employees; and (2) advances relating to certain investigative activities.

**Inventory and Related Property**

Inventory consists of aircraft and marine parts and materials to be consumed in Customs operations. Aircraft parts and materials are stated at the average unit cost, and marine parts and materials are stated using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs.

Disclosures are also made for items seized by Customs and subsequently forfeited.

**Property, Plant and Equipment**

Prior to FY 1996, Customs capitalized as assets any purchased, transferred or donated property, plant and equipment with a value of \$5,000 or greater, and a useful life of 2 years or greater. Beginning with FY 1996, Customs capitalizes as assets property, plant and equipment with a value of \$50,000 or greater, and a useful life of 2 years or greater. Customs also capitalizes as assets bulk acquisitions of like-kind property, plant and equipment items that are individually valued under the capitalization threshold but are, in the aggregate, significant to Customs financial position or results of operations.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset and that increase an asset's useful life are capitalized. Prior to FY 1996, expenditures greater than \$5,000 for improving or rebuilding an asset and that increased an asset's useful life were capitalized. In-house computer software development costs are expensed.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 5 to 20 years for capitalized equipment, ranging from 2 to 30 years for leasehold improvements, and 30 years for buildings and structures.

Upon legal transfer, donation, or approval for disposal of property, plant or equipment, the related asset, corresponding accumulated depreciation and net position account balances are removed.

**Liabilities Covered By/Not Covered by Budgetary or Other Resources**

Liabilities covered by budgetary or other resources are those liabilities incurred for which Congress has appropriated or otherwise made funds available during the current or prior fiscal years. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally-appropriated or other amounts. The liquidation of the liabilities not covered by budgetary or other resources are dependent on future congressional appropriations.

The expenses associated with liabilities not covered by budgetary or other resources are reflected in the costs of the statement of net cost.

**Accrued Annual, Sick and Other Leave and Compensatory Time**

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of liabilities not covered by budgetary resources in the Balance Sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.





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**Department of the Treasury, United States Customs Service  
Notes to Financial Statements (continued)**

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**Pension Costs, Other Retirement Benefits, and Other Post-employment Benefits**

Most Customs employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS). Employees contribute 7.25 percent of base pay, or 7.75 percent for those personnel classified as law enforcement agents, while Customs contributes 8.51 or 9.01 percent, respectively, for a total contribution rate of 15.76 or 16.76 percent as of September 30, 1999. Employees contributed 7 percent of base pay or 7.5 percent for those personnel classified as law enforcement agents, while Customs contributed 8.51 or 9.01 percent, respectively, for a total contribution rate of 15.51 or 16.51 percent as of September 30, 1998. The cost of providing a CSRS benefit is 24.2 percent, or 40.0 percent for law enforcement agents, as provided by the Office of Personnel Management (OPM) as of September 30, 1999 and 1998, which is more than the amounts contributed by Customs and the employees. Customs is required to report the full cost of providing pension benefits to include the cost financed by OPM. As of September 30, 1999 and 1998, the additional pension expense totaling \$51.5 million and \$56.8 million, respectively, is included as an expense and an imputed financing source in the Statement of Net Cost and Statement of Changes in Net Position.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which Customs automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, Customs also contributes the employer's matching share for Social Security. For the FERS basic benefit, the employees contribute 1.05 percent of base pay, or 1.55 percent for those personnel classified as law enforcement agents, while Customs contributes 10.7 or 23.3 percent, respectively, for a total contribution rate of 11.75 or 24.85 percent as of September 30, 1999. For the FERS basic benefit the employees contributed 0.8 percent of base pay or 1.3 percent for those personnel classified as law enforcement agents, while Customs contributed 10.7 or 23.3 percent, respectively, for a total contribution rate of 11.5 or 24.6 percent as of September 30, 1998. The cost of providing a FERS basic benefit is 11.5 percent or 24.6 percent for law enforcement agents as provided by OPM as of September 30, 1999 and 1998. As of September 30, 1999, the cost of providing a FERS basic benefit is less than the amounts contributed by Customs and the employees while as of September 30, 1998, the cost of providing a FERS basic benefit and the total contribution rates equaled. As of September 30, 1999, the decrease in pension expense totaling \$1.0 million is included as a decrease in expense and a decrease in imputed financing source in the Statement of Net Cost and Statement of Changes in Net Position.

For Customs inspectors and canine officers, the pay basis for determining employee deductions and agency contributions toward CSRS and FERS, as appropriate, includes regular pay and up to a maximum of \$15,000 in certain overtime earnings for FY 1999, and up to a maximum of \$12,500 in certain overtime earnings for FY 1998.

Customs does not report CSRS assets, FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. As of September 30, 1999 and 1998, contributions of \$153.2 million and \$139.6 million, respectively, were made to these plans.

Similar to Federal retirement plans, OPM, rather than Customs, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. Customs is required to report the full cost of providing other retirement benefits (ORB) although Customs currently does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. As of September 30, 1999 and 1998, the cost factor per employee enrolled in the FEHBP is \$2,731 and \$2,529, respectively, which is provided by OPM on a per employee basis because the benefits do not depend on future salary levels of individual employees. As of September 30, 1999 and 1998, the FEHBP ORB amount totaling \$47.0 million and \$43.2 million, respectively, is included as an expense and imputed financing source in the Statement of Net Cost and Statement of Changes in Net Position. As of September 30, 1999 and 1998, the FEGLI cost factor for employees enrolled in the FEGLI program is .02 percent of their basic pay. As of September 30, 1999 and 1998, the FEGLI ORB amount totaling \$192 thousand and \$183 thousand, respectively, is also included as an expense and imputed financing source in the Statement of Net Cost and Statement of Changes in Net Position.



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

As of September 30, 1999 and 1998, Customs contributions for active employees who participate in FEHBP were \$54.0 million and \$48.8 million, respectively. As of September 30, 1999 and 1998, Customs contributions for active employees who participate in the FEGLI program were \$2.1 million.

Customs is required to recognize an expense and liability for other postemployment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Customs recognizes an expense and liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before September 30. As of September 30, 1999 and 1998, Customs recorded an expense and liability for unemployment compensation totaling \$109 thousand and \$293 thousand, respectively, and for continuation of pay totaling \$49 thousand and \$65 thousand, respectively.

**Accrued Workers' Compensation**

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants.

Reimbursement to Labor on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to Customs as part of its annual appropriation from Congress in the year in which the reimbursement takes place. As of September 30, 1999 and 1998, Customs accrued intra-governmental liability to Labor for payments made but not covered by budgetary resources is approximately \$41.5 million and \$40.9 million, respectively.

The actuarial liability estimate includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by Labor, Treasury allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The net present value of estimated payments are not covered by budgetary resources and will require future funding. Customs estimated actuarial liability as of September 30, 1999 and 1998, is approximately \$181.8 million and \$172.8 million, respectively.

**Unexpended Appropriations**

Unexpended appropriations represent the amount of Customs unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

**Cumulative Results of Operations**

Cumulative results of operations primarily represents the excess of user fee revenues over expenses. It also includes resources used to invest in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual leave earned but not taken, accrued workers' compensation, and contingent liabilities.



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

**Revenue, Financing Sources and Expense Recognition**

Customs activities are financed principally through exchange revenue, non-exchange revenue, and appropriations.

Appropriations used are recognized as a financing source when expenses are incurred and assets are purchased.

Exchange revenues from reimbursable services and intra-governmental reimbursable activity are recognized as earned when the good or service is provided and reflect the full cost of the good or service provided. Non-exchange revenue from user fees is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Customs may retain the user fee revenues and expend them as authorized by law for Customs inspector overtime and other activities directly related to the services to which the fees relate.

Costs incurred by Customs but funded by another entity and transfers of assets without reimbursement are also recognized as financing sources for the period in which they occurred.

Expenses are recognized when goods or services are received, when inventory is used, or assets depreciated, or amortized.

**Non-Entity**

**Assets and Liabilities**

Non-entity intra-governmental assets and liabilities represent activity with other Federal agencies. All other non-entity assets and liabilities represent activity outside of the Federal government, such as domestic and foreign persons, organizations, or governments outside the U.S. Government. Non-entity assets consist of funds with Treasury, cash and other monetary instruments, and receivables relating to import/export activity which are to be distributed to Treasury, other Federal agencies and other governments. Corresponding liabilities are recorded as Due to the General Fund and Others and Advances From Others for amounts to be allocated in future periods. A refund payable is recorded for duties, taxes, or fees to be refunded.

Customs receives funding to pay refunds and drawback claims of duties, taxes, or fees. Customs accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. An intra-governmental liability due to the General Fund is recognized for refunds and drawback funds in excess of accrued liabilities. Customs also discloses contingent liabilities related to future refunds and drawback claims. These liabilities are based on historical experience.

**Fund Balance with Treasury**

The fund balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, and fees.

**Cash and Other Monetary Instruments**

Cash represents non-entity monies to be distributed in a future period. The timing difference occurs between when cash is received and applied to a specific revenue type, and when the distribution of funds occurs. Monetary instruments are held by Customs in lieu of an importer/broker filing a surety bond.

**Accounts Receivable**

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest which have been established as a legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. Customs accounting policy for non-entity receivables is described in more detail in Note 4, Accounts Receivable.



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## Department of the Treasury, United States Customs Service Notes to Financial Statements (continued)

### **Seized Property and Currency**

Seized property and currency result from enforcement activities. These items are not considered assets of Customs; however, Customs has a stewardship responsibility until the disposition of the seized items are determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized. If forfeiture occurs, the seized property and currency become assets of the Treasury Forfeiture Fund, or in the case of prohibited items, such as narcotics, are destroyed. Analysis of changes in seized and forfeited property and currency are disclosed in Note 5, Inventory and Related Property.

### **Other Non-Entity Items in Customs Custody**

Customs has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or related notes as the amount is not significant, but does represent a fiduciary responsibility of Customs.

### **Revenue and Expense Recognition**

Revenue is recognized when the cash Customs is entitled to collect on behalf of the Federal government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts designed to defray the cost of services performed by Customs officers or other officials within the port authority, to maintain United States harbors, and to defray the cost of other miscellaneous service programs.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal government.
- Fines and penalties: amounts collected for violations of laws and regulations.
- Refunds: payments made to importers/exporters for overpayment or duplicate payments of duties, taxes, or fees, including interest as provided by law. A refund is primarily identified when the import entry is liquidated, a process in which Customs makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated.

Refunds and associated interest are primarily recorded in and funded by the Refunds and Drawback account. In certain circumstances, however, a refund may be identified prior to liquidation for amounts erroneously remitted. When a refund is identified prior to liquidation, the refund from this remittance is funded from the erroneous collection rather than from the Refunds and Drawback account.

- Drawback: a remittance, in whole or in part, of duties, internal revenue taxes, or fees. Drawback typically occurs where the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Different kinds of drawback claims authorized under law (19 CFR 191.2 and 19 CFR 181), include manufacturing, same condition merchandise, and rejected merchandise. The claimant has up to eight years from the date of importation to file for manufacturing drawback, and up to six years from the date of importation to file for same condition or rejected merchandise drawback.



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## Department of the Treasury, United States Customs Service

### Notes to Financial Statements (continued)

A financing source and expense for refunds and for drawback is primarily recognized when payment is made. The financing source, representing permanent, indefinite appropriation accounts used to fund the disbursement, is included as a decrease in the amount transferred to Treasury reported on the Statement of Custodial Activity.

An accrual adjustment is included to modify net cash collections and refunds to determine the amount of recognized revenue. Accruals represent the net increase or decrease in net revenue related assets and liabilities during a reporting period. Net revenue related assets and liabilities include non-entity accounts receivable, net of uncollectible amounts, and amounts payable for refunds.

Funds remaining in the non-entity budget clearing account at year-end represent amounts Customs received as custodial revenue, but could not immediately be applied to a record or bill. For financial statement purposes, Customs reclassifies amounts remaining in the budget clearing account at year-end and received during the reporting period as custodial revenue.

Customs transfers custodial cash collections to other government agencies based on established laws and regulations. Amounts remitted to the Treasury General Fund can be further distributed to other Federal agencies, as required by law, to fund specific programs or other agency entity activities. For example, Treasury will further distribute 30 percent of duties collected to USDA in accordance with 7 U.S.C. 612c. Revenues collected by Customs and provided directly to USDA represent fees, taxes, and penalty amounts assessed under USDA laws and regulations. Revenues provided directly to the Government of Puerto Rico represent duties, taxes, and fees collected by Customs on behalf of the Government of Puerto Rico in accordance with 48 U.S.C. 739 and 740. Customs also collects duties, taxes, and fees on behalf of the Government of the U.S. Virgin Islands in accordance with 48 U.S.C. 1406 h-i. Customs, however, is authorized by various laws and regulations to retain amounts relating to specific costs incurred in the collection of revenue before remitting the excess amounts to Treasury or to the Governments of Puerto Rico or the U.S. Virgin Islands. The amounts retained by Customs are recorded as earned revenue on the Statement of Net Cost.

Customs also has the authority, in accordance with 19 CFR 127, to take into custody, without risk or expense, merchandise termed "general order property," for which: (1) entry is not made within the time permitted; (2) estimated duties are not paid; (3) proper documentation is lacking; (4) invoicing was incorrectly or illegally performed; and (5) a request has been made by the importer or person in charge of the conveyance in which the merchandise was imported. Customs sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If this general order property remains in Customs custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed or abandoned and can be sold by Customs at public auction.

When general order property is sold, charges are paid from the sales revenue in the following order: (1) internal revenue taxes, (2) expenses of advertising and sale; (3) expenses of cartage, storage and labor; (4) duties; (5) any other charges due the Federal government; and (6) any sum due to satisfy a lien for freight charges or contributions (19 CFR 127.31). Revenue in excess of identified charges is remitted to the Treasury General Fund. In some cases, Customs incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit Customs to offset these costs of sale before returning excess amounts to Treasury or to offset the remaining charges in the repayment hierarchy.





**Department of the Treasury, United States Customs Service  
Notes to Financial Statements (continued)**

**2. Fund Balance with Treasury**

**Entity**

Fund balance with Treasury as of September 30, 1999 and 1998, consists of the following (in thousands):

|                      | <u>1999</u>         | <u>1998</u>         |
|----------------------|---------------------|---------------------|
| Trust Funds          | \$ 98,357           | \$ 51,341           |
| Appropriated Funds   | 771,302             | 519,041             |
| Special Funds        | 811,812             | 849,559             |
| Deposit Funds        | 9,558               | 6,388               |
| Cash – Imprest Funds | <u>1,250</u>        | <u>1,411</u>        |
| Totals               | \$ <u>1,692,279</u> | \$ <u>1,427,740</u> |

Amounts comprising the special fund balances result from Customs authority to assess and collect user fees relating to merchandise and passenger processing (Customs User Fees Account, 101 Stat. 1330-377), Customs authority to assess and collect fees associated with services performed at certain small airports or other facilities (Customs Services at Small Airports, P.L. 98-573, section 236), and Customs authority to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico (Refunds, Transfers and Expenses of Operation of Puerto Rico, 48 U.S.C. 740). These special fund balances are restricted by law in their use to offset specific costs incurred by Customs. In addition, Customs is required to maintain \$30 million in its User Fees Account. Also, a part of the passenger fees in the User Fees Account, totaling approximately \$639.6 million as of September 30, 1999 and 1998, are restricted by law in their use to offset specific costs incurred by Customs and are available to the extent provided in Appropriation Acts. As of September 30, 1999 and 1998: (1) Customs User Fees Account contained approximately \$794.1 million and \$835.1 million, respectively; (2) Customs Services at Small Airports account contained approximately \$2.9 million and \$2 million, respectively; and (3) the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$14.8 million and \$12.5 million, respectively.

The entity trust fund balances result from Customs authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Customs relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased.

**Non-Entity**

Fund balance with Treasury as of September 30, 1999 and 1998, totaled (in thousands):

|                       | <u>1999</u>  | <u>1998</u> |
|-----------------------|--------------|-------------|
| General fund accounts | \$ 1,032,419 | \$ 963,558  |

The general fund balance represents amounts with Treasury from permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with Customs custodial activity of collecting revenue on behalf of the Federal government.



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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**3. Cash and Other Monetary Instruments**

Cash and other monetary instruments as of September 30, 1999 and 1998, consist of the following (in thousands):

|                               | 1999              | 1998              |
|-------------------------------|-------------------|-------------------|
| General fund receipt accounts | \$ 58,306         | \$ 36,293         |
| Trust fund receipt accounts   | 472               | 700               |
| Special fund receipt accounts | 6,131             | 5,102             |
| Deposit fund receipt accounts | 37,040            | 38,965            |
| Suspense account              | 40,834            | 19,962            |
| Monetary instruments          | <u>2,260</u>      | <u>2,361</u>      |
| Totals                        | \$ <u>145,043</u> | \$ <u>103,383</u> |

These account balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and when the distribution of funds occurs. Cash can either be distributed to the General Fund, other Federal agencies, other governments, or returned to the importer/broker.

The non-entity Suspense account contains funds held by Customs that may not result in custodial revenue. Items in the suspense account typically include: (1) amounts collected from bankrupt entities (these amounts will be re-distributed according to final determination of bankruptcy procedures); (2) offers made by an importer/broker who violated a law or regulation and is attempting to mitigate the penalty or fine amount (the offer will become revenue if accepted or will be refunded to the importer/broker if rejected); and (3) cash held by Customs from an importer/broker in lieu of the importer/broker filing a surety bond (these amounts are returned to the importer/broker when the importing activity ceases or when a surety bond is placed on file with Customs, net of any amounts owed relating to duty, taxes, or fees).

The monetary instrument balance represents instruments held by Customs from an importer/broker in lieu of the importer broker filing a surety bond. The instruments are returned when the importing activity ceases or when a surety bond is placed on file.

**4. Accounts Receivable, Net**

**Entity Intra-governmental Accounts Receivable**

Accounts receivable due from other Federal agencies, as of September 30, 1999 and 1998, respectively, total \$21.1 million and \$32.1 million, and are considered fully collectible.

**Entity Accounts Receivables, Net**

Receivables from reimbursable services are recognized for work, or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 1999 and 1998, reimbursable service receivables total \$4.0 million and \$5.7 million, respectively, and are considered fully collectible.

User fees are collected for inspectional processing of air and sea passengers and loaded railroad cars. Receivables accrue for airline and vessel fees on a quarterly basis and accrue for railroad fees on a monthly basis. Payment is due thirty days subsequent to the end of the quarter for airline and vessel fees, or sixty days subsequent to the end of the month for railroad fees. As of September 30, 1999 and 1998, user fee receivables total \$69.6 million and \$66.5 million, respectively, and are net of uncollectible amounts totaling \$5.8 million and \$3.3 million, respectively.



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

**Non-Entity Receivables, Net**

Receivables as of September 30, 1999 and 1998 are as follows (in thousands):

| Receivables Category       | 1999               |              |                       |                       |
|----------------------------|--------------------|--------------|-----------------------|-----------------------|
|                            | Intra-governmental | Governmental | Amounts Uncollectible | Total Net Receivables |
| Duties                     | \$ --              | \$ 834,436   | \$ (45,173)           | \$ 789,263            |
| Excise Taxes               | --                 | 32,661       | (90)                  | 32,571                |
| User fees                  | --                 | 56,785       | (3,069)               | 53,716                |
| Fines/penalties            | --                 | 404,130      | (363,912)             | 40,218                |
| Interest                   | --                 | 41,680       | (36,528)              | 5,152                 |
| Refunds and drawback       | --                 | 3,374        | (2,967)               | 407                   |
| Gross receivables          | --                 | 1,373,066    | \$ (451,739)          | \$ 921,327            |
| Less uncollectible amounts | --                 | (451,739)    |                       |                       |
| Net receivables            | \$ --              | \$ 921,327   |                       |                       |

| Receivables Category       | 1998               |              |                       |                       |
|----------------------------|--------------------|--------------|-----------------------|-----------------------|
|                            | Intra-governmental | Governmental | Amounts Uncollectible | Total Net Receivables |
| Duties                     | \$ 31              | \$ 757,495   | \$ (18,497)           | \$ 739,029            |
| Excise Taxes               | --                 | 26,657       | (90)                  | 26,567                |
| User fees                  | --                 | 57,755       | (1,926)               | 55,829                |
| Fines/penalties            | --                 | 294,250      | (249,177)             | 45,073                |
| Interest                   | --                 | 36,510       | (32,281)              | 4,229                 |
| Refunds and drawback       | --                 | 5,268        | (4,794)               | 474                   |
| Gross receivables          | 31                 | 1,177,935    | \$ (306,765)          | \$ 871,201            |
| Less uncollectible amounts | --                 | (306,765)    |                       |                       |
| Net receivables            | \$ 31              | \$ 871,170   |                       |                       |

Customs assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file Customs entry documents. Generally, within 10 working days after Customs releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. A receivable of \$830 million and \$795 million was recorded for 416,217 entries and 412,272 entries for merchandise released into commerce on or before September 30, 1999 and 1998, respectively, for which payment was not received as of September 30, 1999 and 1998. There were an additional 2,411 entries and 2,586 entries for merchandise released into commerce on or before September 30, 1999 and 1998, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is Customs policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable. Of the non-entity net receivable amounts at September 30, 1999 and 1998, approximately 90 percent was collected by the end of the first week in November 1999 and 1998, respectively.

In addition to the above reporting and related payments, import specialists review selected entry summaries to determine whether importer estimates of duties, taxes, and fees were accurate or whether additional (supplemental) amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date to file for a review of the application by the Commissioner of Customs. Consequently,



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## Department of the Treasury, United States Customs Service

### Notes to Financial Statements (continued)

supplemental accounts receivable balances are only recorded on outstanding claims when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

The Customs Modernization, Title VI of the North American Free Trade Agreement Implementation Act (P.L. 103-182, 107 Stat. 2057), allows for the implementation of an Entry Reconciliation process. Reconciliation allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the U.S. commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the U.S. commerce which finalizes the entry data, and makes the appropriate financial and statistical adjustments. The reconciliation entry can result in additional duty or fee collections, or duty or fee refunds. A reconciliation entry can include a single entry or thousands of entries. On October 1, 1998, Customs implemented a nationwide Reconciliation Program prototype test of the reconciliation entry process. During FY 1999, over 1 million individual entry summaries were entered into the reconciliation program. As of September 30, 1999, Customs received 58 reconciliation entries that finalized over 5,000 entry summaries. Additional duties and fees totaling \$60 thousand were received with the submission of the reconciliation entries. Reconciliation entries for the remaining entry summaries will be received during FYs 2000 and 2001. Until the reconciliation entries are received, Customs can not determine whether additional duties or fees are due from the importer.

Receivable amounts recorded above also do not include unliquidated entries related to vessel/aircraft foreign repair or equipment purchases (vessel repair entries). Customs regulations state the liability for the declaration, entry and payment of duties accrues at the time of the first arrival of the vessel in a port of the United States; however, payment of duty is not due until liquidation of the entry. Liquidation results in billing of the amounts due, and these amounts can be protested. Thus, receivable amounts are recorded when the protest period has elapsed or when a protest decision has been rendered in Customs favor. As of September 30, 1999 and 1998, there were 558 and 693 unliquidated vessel repair entries, respectively, with an estimated receivable balance of approximately \$9.0 million and \$14.5 million, respectively. The duties were estimated based on actual subsequent liquidated amounts or an average liquidated amount based on historical data for the past four years.

A fine or penalty is established when a violation of import/export law is discovered. Customs assesses a liquidated damage or penalty for these cases to the maximum extent of the law. The importer or surety has the option after receipt of the notice of assessment to petition that assessment. The importer or surety has 60 days to file such petition for relief or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. As of September 30, 1999 and 1998, Customs had 7,280 and 5,569 receivables, respectively, related to fines and penalty cases. Customs was also tracking another 28,838 cases, for which a receivable was not established because: (1) the petition period had not expired; or (2) Customs had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed. For the 28,838 and 26,903 cases still in petition phase as of September 30, 1999 and 1998, respectively, Customs identified approximately \$14 million and \$37 million, respectively as "actual loss of duties." Normally, actual loss of duties results from a misclassification or undervaluation of merchandise imported into the United States, and is discovered as part of an audit of the importer by Customs Regulatory Audit Division. As a result of the audit, a penalty is assessed for violation of Customs laws and regulations. The penalty is usually not mitigated (relief granted) until the outstanding loss of duties is paid. An analysis of change in receivables and aging schedules for the entity and non-entity receivables are available in the Other Accompanying Information section of this report.

## 5. Inventory and Related Property

### Operating Parts and Materials

Operating parts and materials consist of parts and materials held for future consumption to repair and maintain Customs aircraft and vessels used in enforcement activities.



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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Operating parts and materials as of September 30, 1999 and 1998, consists of the following (in thousands):

| <u>Category</u> | <u>1999</u>      | <u>1998</u>      |
|-----------------|------------------|------------------|
| Aircraft        | \$ 34,880        | \$ 41,571        |
| Marine          | 3,342            | 4,104            |
| Communication   | --               | 5,271            |
| Totals          | <u>\$ 38,222</u> | <u>\$ 50,946</u> |

Parts and materials acquired without reimbursement and consumed during the fiscal year ended September 30, 1999 and 1998, totaled \$21.7 million and \$19.9 million, respectively. Included in the September 30, 1999 and 1998 balances are parts and materials transferred to Customs without reimbursement totaling \$17.7 million and \$13.2 million, respectively. When ultimately consumed in Customs operations an operating expense is recorded.

**Seized Property and Currency**

Seized property results principally from Customs criminal investigations and passenger/cargo processing and are not considered assets of Customs. These items include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value. Under the requirements of Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, forfeited and seized property held by Treasury bureaus, including Customs, are disclosed on a consolidated basis in the financial statements of the Treasury Forfeiture Fund. Customs has a stewardship responsibility for these assets upon seizure. Substantially all seized property, except drugs and weapons, is managed and maintained under a contract with an unrelated entity, and is disclosed at a value estimated by Customs personnel or, in some cases, an independent appraiser. Depending upon the need for evidence, seized currency is either deposited to a Treasury suspense account or stored in a vault at a financial institution or Customs facility.





Department of the Treasury, United States Customs Service  
Notes to Financial Statements (continued)

5. Seized Property and Currency

Analysis of Change in Seized Property and Currency

The following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported in the financial statements of the Treasury Forfeiture Fund. An analysis of change in seized property and currency during Fiscal Year 1999 is as follows (in thousands):

|                                   | Balance October 1 |               | Seizures          |               | Remissions          |                 | Forfeitures         |                 | Adjustments (a)  |              | Value Changes     |     | Balance September 30 |               |
|-----------------------------------|-------------------|---------------|-------------------|---------------|---------------------|-----------------|---------------------|-----------------|------------------|--------------|-------------------|-----|----------------------|---------------|
|                                   | Value             | No.           | Value             | No.           | Value               | No.             | Value               | No.             | Value            | No.          | Value             | No. | Value                | No.           |
| Currency and monetary instruments | \$ 317,861        | --            | \$ 194,506        | --            | \$ (99,951)         | --              | \$ (227,483)        | --              | \$ (3,506)       | --           | \$ --             | --  | \$ 181,427           | --            |
| Marketable securities             | 2,360             | --            | 530               | --            | (470)               | --              | (15)                | --              | (9)              | --           | --                | --  | 2,396                | --            |
| Real property                     | 7,374             | 53            | 2,952             | 24            | (1,666)             | (19)            | (4,513)             | (21)            | 2,158            | (1)          | 713               | --  | 7,018                | 36            |
| General property                  | 129,351           | 8,603         | 210,241           | 21,942        | (161,906)           | (9,594)         | (19,627)            | (11,296)        | 12,618           | 2            | (5,836)           | --  | 164,841              | 9,657         |
| Vessels                           | 4,547             | 110           | 6,998             | 137           | (2,456)             | (40)            | (6,167)             | (131)           | (334)            | (7)          | (799)             | --  | 1,789                | 69            |
| Aircraft                          | 2,257             | 19            | 16,319            | 18            | (14,418)            | (17)            | (1,081)             | (7)             | 917              | --           | 342               | --  | 4,336                | 13            |
| Vehicles                          | <u>13,318</u>     | <u>2,762</u>  | <u>60,292</u>     | <u>10,923</u> | <u>(46,791)</u>     | <u>(4,338)</u>  | <u>(13,908)</u>     | <u>(7,234)</u>  | <u>936</u>       | <u>(218)</u> | <u>(2,840)</u>    | =   | <u>11,007</u>        | <u>1,895</u>  |
| Totals                            | \$ <u>477,068</u> | <u>11,547</u> | \$ <u>491,838</u> | <u>33,044</u> | \$ <u>(327,658)</u> | <u>(14,008)</u> | \$ <u>(272,794)</u> | <u>(18,689)</u> | \$ <u>12,780</u> | <u>(224)</u> | \$ <u>(6,420)</u> | =   | \$ <u>372,814</u>    | <u>11,670</u> |

- (a) Adjustments include reclassification of property categories and minor adjustments to beginning balance. Additionally, adjustments include property turned over to state and local or other Federal law enforcement agencies for prosecution or destruction prior to forfeiture.



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

**Material Non-Valued Seized Property**

An analysis of Change in Material Non-Valued Seized Property during Fiscal Year 1999 is presented by number of line items seized. Firearms and Explosives include firearms, ammunition, explosives, and firearm accessories. Prohibited items include merchandise with no legal value in the United States. The analysis is as follows:

| <u>Category</u>         | <u>Balance<br/>October 1<br/>Number</u> | <u>Seizures<br/>Number</u> | <u>Remissions<br/>Number (a)</u> | <u>Forfeitures<br/>Number</u> | <u>Adjustments<br/>Number</u> | <u>Balance<br/>September 30<br/>Number</u> |
|-------------------------|---|----------------------------|----------------------------------|-------------------------------|-------------------------------|--|
| Illegal Drugs           | 3,108                                   | 48,932                     | (188)                            | (42,276)                      | (105)                         | 9,471                                      |
| Firearms and Explosives | 1,424                                   | 2,267                      | (523)                            | (1,628)                       | (158)                         | 1,382                                      |
| Counterfeit Goods       | 2,652                                   | 5,935                      | (388)                            | (4,983)                       | 110                           | 3,326                                      |
| Prohibited Items        | <u>3,630</u>                            | <u>15,658</u>              | <u>(254)</u>                     | <u>(15,361)</u>               | <u>510</u>                    | <u>4,183</u>                               |
| Total                   | <u>10,814</u>                           | <u>72,792</u>              | <u>(1,353)</u>                   | <u>(64,248)</u>               | <u>357</u>                    | <u>18,362</u>                              |

For material categories, the ending balances for Material Non-Valued Seized Property have been restated to the actual weight or quantity of items seized in compliance with the Federal Financial Accounting and Auditing Technical Release Number 4. The ending balance for marijuana (cannabis), cocaine and heroin are presented by weight seized (kilograms and pounds). The ending balance for firearms includes only those seizure items, which can actually be used as a firearm. The restated ending balances are as follows:

| <u>Category</u>                              | <u>Balance September 30</u> |                         |                 |
|--|-----------------------------|-------------------------|-----------------|
|  | <u>Weight<br/>(Kg)</u>      | <u>Weight<br/>(Lbs)</u> | <u>Quantity</u> |
| Marijuana (Cannabis)                         | 1,330                       | 2,925                   | --              |
| Cocaine                                      | 1,351                       | 2,972                   | --              |
| Heroin                                       | 14                          | 31                      | --              |
| Firearms                                     | --                          | --                      | 4,729           |
| Pornography                                  | <u>--</u>                   | <u>--</u>               | <u>21,272</u>   |
| Total Material Non-Valued<br>Seized Property | <u>2,695</u>                | <u>5,928</u>            | <u>26,001</u>   |

(a) Included in remissions were seized items subsequently returned to the owner once a legal right to possess the item was established.



Department of the Treasury, United States Customs Service  
Notes to Financial Statements (continued)

Analysis of Change in Forfeited Property

The following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported on the financial statements of the Treasury Forfeiture Fund. An analysis of change in forfeited property during Fiscal Year 1999 is as follows (in thousands):

|                                   | Balance<br>October 1 (a) |              | Forfeitures       |               | Deposits/Sales      |                | Disposals/Transfer |              | Destroyed       |                | Adjustments (b) |              | Value Change      |     | Fair Value<br>Adjustment |     | Balance<br>September 30 (a) |              |
|-----------------------------------|--------------------------|--------------|-------------------|---------------|---------------------|----------------|--------------------|--------------|-----------------|----------------|-----------------|--------------|-------------------|-----|--------------------------|-----|-----------------------------|--------------|
|                                   | Value                    | No.          | Value             | No.           | Value               | No.            | Value              | No.          | Value           | No.            | Value           | No.          | Value             | No. | Value                    | No. | Value                       | No.          |
| Currency and monetary instruments | \$ 5,076                 | --           | \$ 227,483        | --            | \$ (227,470)        | --             | \$ --              | --           | \$ --           | --             | \$ (209)        | --           | \$ --             | --  | \$ --                    | --  | \$ 4,880                    | --           |
| Marketable securities             | 5                        | --           | 15                | --            | --                  | --             | --                 | --           | --              | --             | --              | --           | --                | --  | --                       | --  | 20                          | --           |
| Real property                     | 4,319                    | 49           | 4,513             | 21            | (4,372)             | (37)           | (120)              | (1)          | --              | --             | 1,468           | 7            | (39)              | --  | (236)                    | --  | 5,533                       | 39           |
| General property                  | 3,256                    | 2,884        | 19,627            | 11,296        | (20,331)            | (2,288)        | (1,606)            | (556)        | (116)           | (7,908)        | (333)           | (249)        | (899)             | --  | 2,890                    | --  | 2,488                       | 3,179        |
| Vessels                           | 534                      | 39           | 6,167             | 131           | (4,882)             | (69)           | (547)              | (17)         | (13)            | (36)           | 7               | 3            | (87)              | --  | (80)                     | --  | 1,099                       | 51           |
| Aircraft                          | --                       | --           | 1,081             | 7             | --                  | --             | (699)              | (5)          | --              | --             | 85              | 2            | --                | --  | 70                       | --  | 537                         | 4            |
| Vehicles                          | <u>3,487</u>             | <u>1,386</u> | <u>13,908</u>     | <u>7,234</u>  | <u>(10,058)</u>     | <u>(6,591)</u> | <u>(1,986)</u>     | <u>(148)</u> | <u>(3)</u>      | <u>(12)</u>    | <u>(577)</u>    | <u>(20)</u>  | <u>(118)</u>      | --  | <u>(738)</u>             | --  | <u>3,915</u>                | <u>1,849</u> |
| Totals                            | \$ <u>16,677</u>         | <u>4,358</u> | \$ <u>272,794</u> | <u>18,689</u> | \$ <u>(267,113)</u> | <u>(8,985)</u> | \$ <u>(4,958)</u>  | <u>(727)</u> | \$ <u>(132)</u> | <u>(7,956)</u> | \$ <u>441</u>   | <u>(257)</u> | \$ <u>(1,143)</u> | =   | \$ <u>1,906</u>          | =   | \$ <u>18,472</u>            | <u>5,122</u> |

- (a) The October 1 and September 30 balances reflect net realizable values. The Fiscal Year 1999 forfeiture, deposits/sales, disposals/transfers, destroyed, adjustments and value change balances reflect estimated values.
- (b) Adjustments include reclassification of property categories and adjustments to beginning balances.



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

**Material Non-Valued Forfeited Property**

An analysis of Change in Material Non-Valued Forfeited Property during Fiscal Year 1999 is presented by number of line items forfeited. Firearms and Explosives include firearms, ammunition, explosives, and firearm accessories. Prohibited items include merchandise with no legal value in the United States. The analysis is as follows:

| <u>Category</u>         | <u>Balance<br/>October 1<br/>Number</u> | <u>Forfeitures<br/>Number</u> | <u>Transfers<br/>Number</u> | <u>Destroyed<br/>Number</u> | <u>Adjustments<br/>Number</u> | <u>Balance<br/>September 30<br/>Number</u> |
|-------------------------|---|-------------------------------|-----------------------------|-----------------------------|-------------------------------|--|
| Illegal Drugs           | 12,592                                  | 42,276                        | (132)                       | (38,275)                    | (16)                          | 16,445                                     |
| Firearms and Explosives | 510                                     | 1,628                         | (1,578)                     | (94)                        | 136                           | 602  |
| Counterfeit Goods       | 1,083                                   | 4,983                         | (645)                       | (4,644)                     | 180                           | 957  |
| Prohibited Items        | <u>1,264</u>                            | <u>15,361</u>                 | <u>(552)</u>                | <u>(14,466)</u>             | <u>547</u>                    | <u>2,154</u>                               |
| Total                   | <u>15,449</u>                           | <u>64,248</u>                 | <u>(2,907)</u>              | <u>(57,479)</u>             | <u>847</u>                    | <u>20,158</u>                              |

For material categories, the ending balances for Material Non-Valued Forfeited Property have been restated to the actual weight or number of items forfeited in compliance with the Federal Financial Accounting and Auditing Technical Release Number 4. The ending balance for marijuana (cannabis), cocaine and heroin are presented by weight forfeited (kilograms and pounds). The ending balance for firearms includes only those forfeited items, which can actually be used as a firearm. The restated ending balances are as follows:

| <u>Category</u>                                 | <u>Balance September 30</u> |                         |                 |
|---|-----------------------------|-------------------------|-----------------|
|   | <u>Weight<br/>(Kg)</u>      | <u>Weight<br/>(Lbs)</u> | <u>Quantity</u> |
| Marijuana (Cannabis)                            | 231,771                     | 509,896                 | --              |
| Cocaine   | 24,728                      | 54,402                  | --              |
| Heroin  | 2,623                       | 5,771                   | --              |
| Firearms  | --                          | --                      | 670             |
| Pornography                                     | <u>--</u>                   | <u>--</u>               | <u>3,243</u>    |
| Total Material Non-Valued<br>Forfeited Property | <u>259,122</u>              | <u>570,069</u>          | <u>3,913</u>    |



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

**6. Property, Plant and Equipment**

Property, plant and equipment as of September 30, 1999 and 1998, consists of the following (in thousands):

| Categories                 | Useful<br>Life<br>(in years) | 1999                |  |                      |
|----------------------------|------------------------------|---------------------|--|----------------------|
|                            |                              | Acquisition<br>Cost | Accumulated<br>Depreciation/<br>Amortization | Net<br>Book<br>Value |
| Aircraft                   | 12 to 20                     | \$ 418,730          | \$ (197,900)                                 | \$ 220,830           |
| ADP Mainframe              | 5                            | 83,639              | (69,434)                                     | 14,205               |
| ADP Non-mainframe          | 5                            | 18,990              | (13,477)                                     | 5,513                |
| ADP Software               | 5                            | 9,899               | (2,405)                                      | 7,494                |
| Vehicles                   | 6                            | 61,503              | (48,659)                                     | 12,844               |
| Vessels                    | 5 to 10                      | 28,675              | (23,408)                                     | 5,267                |
| Land                       | N/A                          | 4,781               | --   | 4,781                |
| Structures, Facilities (a) | 30                           | 48,656              | (13,924)                                     | 34,732               |
| Leasehold Improvements (b) | 2 to 30                      | 46,904              | (14,984)                                     | 31,920               |
| Construction in Progress   | N/A                          | 42,472              | --   | 42,472               |
| Radio Communications       | 5                            | 44,986              | (43,793)                                     | 1,193                |
| X-Ray/Lab Equipment        | 7                            | 27,646              | (19,424)                                     | 8,222                |
| Assets under Capital Lease | 5                            | 37,377              | (33,485)                                     | 3,892                |
| Office Equipment and Other | 5                            | 64,107              | (55,665)                                     | 8,442                |
| Totals                     |                              | \$ 938,365          | \$ (536,558)                                 | \$ 401,807           |

| Categories                 | Useful<br>Life<br>(in years) | 1998                |  |                      |
|----------------------------|------------------------------|---------------------|--|----------------------|
|                            |                              | Acquisition<br>Cost | Accumulated<br>Depreciation/<br>Amortization | Net<br>Book<br>Value |
| Aircraft                   | 12 to 20                     | \$ 397,549          | \$ (176,579)                                 | \$ 220,970           |
| ADP Mainframe              | 5                            | 100,375             | (80,339)                                     | 20,036               |
| ADP Non-mainframe          | 5                            | 19,325              | (14,168)                                     | 5,157                |
| ADP Software               | 5                            | 7,727               | (1,926)                                      | 5,801                |
| Vehicles                   | 6                            | 73,770              | (55,608)                                     | 18,162               |
| Vessels                    | 5 to 10                      | 31,992              | (23,822)                                     | 8,170                |
| Land                       | N/A                          | 4,781               | --   | 4,781                |
| Structures, Facilities (a) | 30                           | 54,049              | (14,436)                                     | 39,613               |
| Leasehold Improvements (b) | 2 to 30                      | 42,931              | (12,302)                                     | 30,629               |
| Radio Communications       | 5                            | 48,263              | (43,851)                                     | 4,412                |
| X-Ray/Lab Equipment        | 7                            | 27,615              | (17,357)                                     | 10,258               |
| Assets under Capital Lease | 5                            | 43,595              | (36,757)                                     | 6,838                |
| Office Equipment and Other | 5                            | 65,130              | (52,741)                                     | 12,389               |
| Totals                     |                              | \$ 917,102          | \$ (529,886)                                 | \$ 387,216           |

- (a) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of \$534 thousand.
- (b) Included in the leasehold improvements balance is the right to use a building located at a U.S. Navy installation. Although the structure was financed with Customs funds at a cost of \$5.7 million, a land-use agreement states that ownership of the structure resides with the U.S. Navy.





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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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**7. Refunds Payable**

Refunds payable consist of amounts owed for refunds and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 1999 and 1998, accrued liability consists of the following (in thousands):

|                 | 1999              | 1998              |
|-----------------|-------------------|-------------------|
| Refunds         | \$ 219,535        | \$ 262,628        |
| Drawback claims | 28,953            | 34,470            |
| Totals          | <u>\$ 248,488</u> | <u>\$ 297,098</u> |

The FY 1999 and 1998 payable includes a \$103 million and \$130 million liability, respectively, relating to the renewal of the Generalized System of Preference (GSP) legislation. This Act required refunds of amounts collected by Customs for specific trade activity occurring after June 30, 1999 and 1998.

The Customs Modernization, Title VI of the North American Free Trade Agreement Implementation Act (P.L. 103-182, 107 Stat. 2057), allows for the implementation of an Entry Reconciliation process. Reconciliation allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the U.S. commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the U.S. commerce which finalizes the entry data, and makes the appropriate financial and statistical adjustments. The reconciliation entry can result in additional duty or fee collections, or duty or fee refunds. A reconciliation entry can include a single entry or thousands of entries. On October 1, 1998, Customs implemented a nationwide Reconciliation Program prototype test of the reconciliation entry process. During FY 1999, over 1 million individual entry summaries were entered into the reconciliation program. As of September 30, 1999, Customs received 58 reconciliation entries that finalized over 5,000 entry summaries. Refunds of duties and fees totaling \$482 thousand were identified with the submission of the reconciliation entries. Reconciliation entries for the remaining entry summaries will be received during FYs 2000 and 2001. Until the reconciliation entries are received, Customs can not determine whether additional refunds on duty or fees are owed to the importers.

**8. Commitments and Contingencies**

Customs is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) Customs appropriation for refunds and drawback; (2) various claims and judgement funds maintained by Treasury; or (3) Customs salary and expense appropriation. It is the opinion of Customs management and legal counsel, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

**Entity**

Customs was involved in various actions incidental to its operations. As of September 30, 1999, Customs probable liability was \$5.0 million of which \$0.6 million would be funded by Customs and \$4.4 million from various claims and judgement funds maintained by Treasury. This compared with the probable liability as of September 30, 1998, of \$3.4 million of which \$0.7 million would be funded by Customs and \$2.7 million from various claims and judgement funds maintained by Treasury. Customs is required to record an expense and liability for all of its probable and estimable losses regardless of the paying entity. As of September 30, 1999, Customs Counsel determined that it is reasonably possible that Customs will be liable for an additional \$59.2 million of which \$12.3 million would be funded by Customs and \$46.9 million from various claims and judgement funds maintained by Treasury. This compares with a reasonably possible liability as of September 30, 1998, of \$37.1 million of which \$7.1 million would be funded by Customs and \$30 million from various claims and judgement funds maintained by Treasury.

The National Treasury Employees Union (NTEU) filed grievances concerning the use of other than full-time employees and denying full-time inspectors the opportunity to work overtime for the years 1989 to 1994. An agreement was reached with the NTEU in June 1998 concerning the grievances related to Customs use of other than full-time inspectors. As of September 30, 1998, Customs recorded a liability of approximately \$2.0 million to be



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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paid from the Salaries and Expense appropriation for the settlement of the grievances. As of September 30, 1999, the liability was liquidated.

Customs is generally liable to the Department of Defense (DoD) for damage or loss to aircraft on loan to Customs from DoD. As of September 30, 1999 and 1998, Customs had 24 and 30 loaned aircraft with an acquisition value of \$105.5 million and \$111 million, respectively.

In accordance with Public Law 101-510, Customs is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. At September 30, 1999, Customs canceled \$23.2 million from FY 1994 annual appropriations, of which \$10.3 million was obligated. At September 30, 1998, Customs canceled \$35.7 from FY 1993 annual appropriations, of which \$13.1 million was obligated. For the years ended September 30, 1999 and 1998, Customs paid \$495 thousand and \$398 thousand, respectively, for obligations associated with appropriations that were canceled in prior years. Based on historical activity, Customs estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed \$1 million in any fiscal year.

Public Law 103-182, enacted December 8, 1993, authorized Customs to award a \$10 million grant to an institution or a consortium of such institutions in the State of Texas to assist in planning, establishing, and operating a Center for the Study of Western Hemispheric Trade. In January 1995, Customs awarded the grant to Texas A&M University Research Foundation. The grant was fully obligated in Customs FY 1995 Salaries and Expense appropriation and was available for expenditure through September 30, 1998. Public Law 104-208, enacted September 30, 1996, provided that of the funds appropriated, \$2.5 million may be made available for the Western Hemisphere Trade Center. Customs increased the grant to Texas A&M University Research Foundation in September 1997 to a total of \$12.5 million, of which the \$2.5 million was fully obligated in Customs no-year Salaries and Expense appropriation. The total \$12.5 million was available for expenditure through December 31, 1998, as modified in March 1998. In accordance with the final expenditure report of March 1999, the grant was reduced to \$12.4 million. For the years ending September 30, 1999 and 1998, \$1.1 million and \$3.9 million was disbursed, respectively. The final amount disbursed, as of September 30, 1999, was \$12.4 million. A liability of \$35 thousand was recorded for payments by the Texas A&M University Research Foundation that were not reimbursed by Customs as of September 30, 1998.

Pursuant to Public Law 103-182, and as a result of the conference report clarification associated with Public Law 104-52, enacted November 19, 1995, Customs was authorized funding for review of trade issues to be equally divided between the Center for the Study of Western Hemispheric Trade in Texas and the Northern Plains and Rockies Center for the Study of Western Hemispheric Trade in Montana at no more than half the level provided in 1995. In August 1996, Customs awarded a \$2.5 million grant to Montana State University to further research and education programs at the Northern Plains and Rockies Center for the Study of Western Hemisphere Trade. The grant was fully obligated in Customs no-year Salaries and Expense appropriation and was previously available for expenditure through September 30, 1999. The grant is available for expenditure through September 30, 2000, as modified in January 1998. For the years ending September 30, 1999 and 1998, \$0.5 million and \$0.7 million was disbursed, respectively. The total amount disbursed, as of September 30, 1999 was \$2.1 million. A liability of \$110 thousand and \$13 thousand was recorded for payments by the Northern Plains and Rockies Center for the Study of Western Hemisphere Trade at Montana State University that were not reimbursed by Customs as of September 30, 1999 and 1998, respectively.

Pursuant to Public Law 105-61, enacted October 10, 1997, Customs was authorized funding to award a \$1.25 million grant to the Global Trade and Research Program at the Montana World Trade Center. In March 1998, Customs awarded the grant to the University of Montana to further research and education programs for the Global Trade and Research Program at the Montana World Trade Center. The grant was fully obligated in Customs no-year Salaries and Expense appropriation and is available for expenditure through December 31, 1999. For the years ending September 30, 1999 and 1998, \$0.6 million and \$0.3 million was disbursed, respectively. The total amount disbursed, as of September 30, 1999 was \$0.9 million. A liability of \$160 thousand and \$67 thousand was recorded for payments by the Montana World Trade Center at the University of Montana that were not reimbursed by Customs as of September 30, 1999 and 1998, respectively.



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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As a result of Senate Report 105-49 associated with Public Law 105-61, enacted October 10, 1997, Customs was authorized to provide no less than \$200 thousand to the National Center for Missing and Exploited Children (NCMEC) for the training of retired law enforcement officers to assist in the investigation of unsolved missing children cases nationwide. In June 1998, Customs modified a grant to NCMEC from the U.S. Secret Service to increase it by \$200 thousand. The addition to the grant was fully obligated in Customs FY 1998 Salaries and Expense appropriation and is available for expenditure through October 31, 2000. As a result of Senate Report 105-251 associated with Public Law 105-277, enacted October 21, 1998, Customs was authorized to provide no less than \$200 thousand to the NCMEC and \$75 thousand to promote public awareness for the child pornography tipline in coordination with the NCMEC and the U.S. Postal Service to ensure that the publicity is diversified and effective. In March 1999, Customs modified a grant to NCMEC from the U.S. Secret Service to increase it by \$275 thousand, which was fully obligated in Customs FY 1999 Salaries and Expense appropriation. The total \$475 thousand is available for expenditure through October 31, 2000. For the year ending September 30, 1999, \$268 thousand was disbursed. As of September 30, 1999 and 1998, no liability was recorded.

Pursuant to Public Law 105-277, enacted October 21, 1998, Customs was authorized \$500 thousand to fund the expansion of services at the Vermont World Trade Office. In April 1999, Customs awarded a \$500 thousand grant to the Vermont World Trade Office to provide federal assistance to further expand the Vermont World Trade Office at Burlington, Vermont. The grant was fully obligated in Customs FY 1999 Salaries and Expense appropriation and is available for expenditure through December 31, 2001. For the year ending September 30, 1999, \$63 thousand was disbursed. As of September 30, 1999, no liability was recorded.

As a result of House Report 105-592 associated with Public Law 105-277, enacted October 21, 1998, Customs was authorized funding to provide no more than \$500 thousand in contract awards to the National Law Center for Inter-American Free Trade (NLCIFT) for the explicit purpose of supporting Federal Government efforts to conduct legal research specific to relevant trade issues. In September 1999, Customs issued a \$250 thousand cooperative agreement to the NLCIFT to conduct legal research and study the impact of the NAFTA legislation on the Mexican Maquiladora System and related changes on Customs. The cooperative agreement was fully obligated in Customs FY 1999 Salaries and Expense appropriation and is available for expenditure through September 30, 2000. For the year ending September 30, 1999, no disbursements were made from Customs funds and no liability was recorded.

**Non-Entity**

There are cases filed against Customs relating to trade litigation. As of September 30, 1999 and 1998, Customs recorded a probable liability associated with these cases of \$47.0 million and \$58.8 million, respectively. Customs counsel determined that it was reasonably possible for Customs to be liable as of September 30, 1999 and 1998, for an additional \$166.3 million and \$170.2 million, respectively, as a result of trade litigation.

On July 27, 1999, the United States Court of Appeals for the Federal Circuit affirmed the Court of International Trade decision that merchandise processing fees are eligible for drawback relating to claims for commercially interchangeable merchandise. Only the merchandise processing fees for entries associated with drawback claims filed on or after July 27, 1999, are being considered eligible for drawback. As of September 30, 1999, the amount of merchandise fee subject to drawback is not estimable.

Customs estimated future drawback claims and refunds relating to custodial revenue collections received during FY 1999 and in prior years, at \$975 million and \$888 million, respectively. As of September 30, 1998, Customs estimated future drawback claims and refunds relating to custodial revenue collections received during FY 1998 and in prior years, at \$1,022 million and \$853 million, respectively.

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other agencies, Customs does not have sufficient information to estimate a contingent liability amount.



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

**9. Other Liabilities Not Covered by Budgetary or Other Resources**

Other liabilities not covered by budgetary or other resources as of September 30, 1999 and 1998, consists of the following (in thousands):

|                     | 1999            | 1998            |
|---------------------|-----------------|-----------------|
| Contingencies       | \$ 4,999        | \$ 5,410        |
| Capital Leases      | 66              | 302             |
| Continuation of Pay | 49              | 65              |
| Environmental       | --              | 38              |
| Totals              | <u>\$ 5,114</u> | <u>\$ 5,815</u> |

The FY 1998 environmental liability, representing the cost to remove asbestos and lead based paint at the Canine Enforcement Training Center, was liquidated during FY 1999. Customs is evaluating a heating oil tank spill at a Customs residence in Roseau, Minnesota, that occurred in October 1999. To date, \$4,000 has been expended for clean up of visible oil. Customs is currently evaluating the extent of the spill to determine if further clean up is needed.

**Operating Leases**

Customs leases various offices, warehouses, and equipment. The expense under these operating leases totaled \$160 million and \$138 million for the years ended September 30, 1999 and 1998, respectively.

Much of the office space occupied by Customs is either owned by the Federal Government or is leased by the General Services Administration (GSA) from commercial sources. In either case, the space is assigned to Customs by GSA, based upon current needs. Customs is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for Customs operations. However, it is expected that Customs will continue to occupy and lease office space from GSA in future years and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease amounts paid to GSA during FY 1999 and 1998 were \$160 million and \$136 million, respectively.

As of September 30, 1999 and 1998, future minimum lease commitments under non-cancelable operating leases for equipment are as follows (in thousands):

| FY                         | 1999          | 1998          |
|----------------------------|---------------|---------------|
| 1999                       | \$ --         | \$ 383        |
| 2000                       | 166           | 170           |
| 2001                       | 46            | 47            |
| 2002                       | --            | --            |
| 2003                       | --            | --            |
| 2004                       | --            | --            |
| Total future minimum lease | <u>\$ 212</u> | <u>\$ 600</u> |

**Capital Leases**

Customs has a number of capital lease agreements primarily involving mainframe computer equipment and other office equipment. All assets acquired under the capital lease agreements have been capitalized, and the related liabilities are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 1999 and 1998, the aggregate capitalized cost of the equipment still subject to lease is \$1.4 million and \$3.3 million, respectively. These capitalized items are included in the total assets acquired under capital lease in the amount of \$37 million and \$44 million, respectively. Certain leases are cancelable upon certain funding conditions.



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

Future minimum lease payments under the capitalized leases and the present value of the minimum lease obligation as of September 30, 1999 and 1998 are as follows (in thousands):

| FY                                       | 1999  | 1998   |
|--|-------|--------|
| 1999                                     | \$ -- | \$ 585 |
| 2000                                     | 220   | 258    |
| 2001                                     | 60    | 92     |
| 2002                                     | --    | --     |
| 2003                                     | --    | --     |
| 2004                                     | --    | --     |
| Total future minimum lease               | 280   | 935    |
| Less: Imputed interest                   | (214) | (633)  |
| Total net present value of capital lease | \$ 66 | \$ 302 |

Substantially all of the net present value of capital lease obligations is expected to be funded from future sources and is presented as a component of entity liabilities not covered by budgetary or other resources on the Balance Sheet.

**10. Net Position**

Net Position as of September 30, 1999 and 1998, consists of the following (in thousands):

|                                  | 1999             |             |                       |              |
|----------------------------------|------------------|-------------|-----------------------|--------------|
|                                  | Special<br>Funds | Trust Funds | Appropriated<br>Funds | Totals       |
| Unexpended Appropriations        |                  |             |                       |              |
| Unobligated – Available          | \$ --            | \$ 72,559   | \$ 234,970            | \$ 307,529   |
| Unobligated – Unavailable        | --               | 49          | 43,557                | 43,606       |
| Obligations/Undelivered Orders   | --               | 24,261      | 348,555               | 372,816      |
| Total Unexpended Appropriations  | --               | 96,869      | 627,082               | 723,951      |
| Cumulative Results of Operations | 854,428          | 13,656      | 104,143               | 972,227      |
| Total Net Position               | \$ 854,428       | \$ 110,525  | \$ 731,225            | \$ 1,696,178 |

|                                  | 1998             |             |                       |              |
|----------------------------------|------------------|-------------|-----------------------|--------------|
|                                  | Special<br>Funds | Trust Funds | Appropriated<br>Funds | Totals       |
| Unexpended Appropriations        |                  |             |                       |              |
| Unobligated – Available          | \$ --            | \$ 21,176   | \$ 92,977             | \$ 114,153   |
| Unobligated – Unavailable        | --               | 35          | 27,864                | 27,899       |
| Obligations/Undelivered Orders   | --               | 24,514      | 261,745               | 286,259      |
| Total Unexpended Appropriations  | --               | 45,725      | 382,586               | 428,311      |
| Cumulative Results of Operations | 897,503          | 8,971       | 110,467               | 1,016,941    |
| Total Net Position               | \$ 897,503       | \$ 54,696   | \$ 493,053            | \$ 1,445,252 |

**11. Statement of Net Cost**

The programs displayed are equivalent to the missions listed in the U.S. Customs Service FY 1997-2002 Strategic Plan.

**Passenger Processing**

To ensure compliance by targeting, identifying, and examining high-risk travelers, and to allow the expeditious movement of low-risk travelers. The goal of Passenger Processing is to achieve at least a 99 percent rate of compliance with Customs laws and regulations for Passengers and crew of commercial and non-commercial conveyances entering or leaving the United States.





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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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**Trade Compliance**

To maximize compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo. Customs key goals are to: (a) increase compliance with U.S. trade laws to at least 90 percent overall and to at least 98 percent in primary focus industries, (b) continue to collect at least 99 percent of the revenue, (c) increase customer satisfaction, (d) decrease per unit cost, and (e) improve the accuracy of key statistics.

**Outbound**

To facilitate international trade, while achieving the highest degree of compliance with United States export requirements in order to protect the U.S. national security, economic interests, and health and safety of the American people. The Outbound Process is responsible for the series of Customs operations related to the movement of merchandise and conveyances outbound from the United States.

**Enforcement**

To prevent the smuggling of narcotics and other contraband into the United States by creating an effective interdiction, intelligence, and investigation capability that disrupts and dismantles smuggling operations. Also to identify, disrupt, and dismantle the systems and criminal organizations that launder the proceeds generated by smuggling, trade fraud, and export violations.

Gross costs and earned revenue by budget functional classification for the years ended September 30, 1999 and 1998, consists of the following (in thousands):

| <u>Functional Classification</u> | 1999               |                       |                    |
|----------------------------------|--------------------|-----------------------|--------------------|
|                                  | <u>Gross Cost</u>  | <u>Earned Revenue</u> | <u>Net Cost</u>    |
| Administration of Justice        | \$2,468,275        | \$(175,623)           | \$2,292,652        |
| General Government               | 43,375             | (38,293)              | 5,082              |
| Totals                           | <u>\$2,511,650</u> | <u>\$(213,916)</u>    | <u>\$2,297,734</u> |

| <u>Functional Classification</u> | 1998               |                       |                    |
|----------------------------------|--------------------|-----------------------|--------------------|
|                                  | <u>Gross Cost</u>  | <u>Earned Revenue</u> | <u>Net Cost</u>    |
| Administration of Justice        | \$2,250,751        | \$(168,651)           | \$2,082,100        |
| General Government               | 37,699             | (39,055)              | (1,356)            |
| Totals                           | <u>\$2,288,450</u> | <u>\$(207,706)</u>    | <u>\$2,080,744</u> |

Customs recorded earned revenue from the Treasury Forfeiture Fund totaling \$62.9 million and \$52.9 million for the years ended September 30, 1999 and 1998, respectively.

Customs and Treasury have a \$28.2 million and \$27.5 million interagency agreement for the Interagency Crime and Drug Enforcement (ICDE) appropriation to reimburse Customs for the expenses necessary for the detection and investigation of individuals involved in organized crime drug trafficking as of September 30, 1999 and 1998, respectively. Customs expenses for the years ended September 30, 1999 and 1998, to support this activity totaled approximately \$35 million and \$31.5 million, respectively, and were funded from the ICDE and Customs salaries and expense appropriation.



**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

Expenses by object class code classification for the years ended September 30, 1999 and 1998, consist of the following (in thousands):

| <u>Expenses</u>                       | <u>1999</u>         | <u>1998</u>         |
|---------------------------------------|---------------------|---------------------|
| Personnel compensation and benefits   | \$ 1,613,221        | \$ 1,532,903        |
| Travel and transportation             | 56,849              | 50,377              |
| Rent, communication, and utilities    | 209,905             | 186,076             |
| Printing and reproduction             | 3,590               | 3,783               |
| Purchases of evidence and information | 18,112              | 15,458              |
| Contractual services                  | 303,993             | 274,621             |
| Supplies and materials                | 36,005              | 57,715              |
| Equipment not capitalized             | 199,146             | 98,514              |
| Depreciation expense                  | 54,052              | 56,097              |
| Other expenses                        | 16,777              | 12,906              |
| Totals                                | <u>\$ 2,511,650</u> | <u>\$ 2,288,450</u> |

**12. Statement of Net Position – Other/Prior Period Adjustments**

Customs adjusted the cumulative results of operations account balance during FY 1999 and 1998 for corrections relating to prior year activity associated with appropriations used for capital investment, parts and materials inventories, and future funding requirements. The net effect of the adjustments to the fiscal year cumulative results of operations account balance totaled \$167 thousand and \$18 million dollars, respectively.

**13. Statement of Budgetary Resources**

As of September 30, 1999 and 1998, budgetary resources obligated for undelivered orders total \$562.6 million and \$412.9 million, respectively. Customs did not have any borrowing or contract authority, and did not have any repayment requirements, financing sources for repayments, or any other terms of borrowing authority used.

Adjustments to budgetary resources available at the beginning of FY 1999 and 1998, consist of the following (in thousands):

|  | <u>1999</u>       | <u>1998</u>       |
|--|-------------------|-------------------|
| Recoveries of prior year obligations         | \$ 205,060        | \$ 178,108        |
| Cancellation of expired and no-year accounts | (23,248)          | (35,726)          |
| Enacted rescissions of prior year balances   | --                | (10,470)          |
| Totals                                       | <u>\$ 181,812</u> | <u>\$ 131,912</u> |

**14. Statement of Financing**

The Financing Sources Yet to be Provided presented on the Statement of Financing represents the change between the beginning and ending balances for Liabilities Not Covered by Budgetary and Other Resources presented on the Balance Sheet.

**15. Refunds and Other Payments**

Disbursements from the Refunds and Drawback account for the years ended September 30, 1999 and 1998, consist of the following (in thousands):

|          | <u>1999</u>         | <u>1998</u>         |
|----------|---------------------|---------------------|
| Refunds  | \$ 757,238          | \$ 837,473          |
| Drawback | <u>402,315</u>      | <u>549,535</u>      |
| Totals   | <u>\$ 1,159,553</u> | <u>\$ 1,387,008</u> |



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**Department of the Treasury, United States Customs Service**  
**Notes to Financial Statements (continued)**

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The disbursements include interest payments of \$157.5 million and \$193.8 million for FYs 1999 and 1998, respectively. In certain instances, a refund may be identified prior to liquidation for amounts remitted by the importer. These refunds are funded from the collections rather than the Refunds and Drawback account. During FYs 1999 and 1998, these refunds totaled \$17 million and \$23.4 million, respectively.

The disbursement totals for refunds also include antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce (Commerce). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. commerce at less than its fair value and (1) a U.S. industry is materially injured or threatened with material injury, or (2) the establishment of an industry in the U.S. is materially retarded because of the importation of that merchandise. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce and (1) a U.S. industry is materially injured or threatened with material injury, or (2) the establishment of an industry in the U.S. is materially retarded because of the importation of that merchandise. These duties are refunded when Commerce issues a decision in favor of the foreign industry.

The total amounts of antidumping and countervailing duties vary from year to year depending on decisions from Commerce. Antidumping and countervailing duty refunds and associated interest refunded during FYs 1999 and 1998 were as follows (in thousands):

|   | <u>1999</u>       | <u>1998</u>       |
|---|-------------------|-------------------|
| Antidumping and countervailing duty refunds       | \$ 169,634        | \$ 371,290        |
| Interest  | <u>92,670</u>     | <u>146,752</u>    |
| Total antidumping and countervailing duty refunds | \$ <u>262,304</u> | \$ <u>518,042</u> |

Refunds disbursed during FYs 1999 and 1998 relate primarily to duty and interest. Disbursements by entry year consist of the following (in thousands):

| <u>Entry Year</u> | <u>1999</u>        | <u>1998</u>        |
|-------------------|--------------------|--------------------|
| 1999              | \$ 402,835         | \$ --              |
| 1998              | 277,140            | 471,393            |
| 1997              | 92,261             | 185,364            |
| 1996              | --                 | 237,235            |
| Prior Years       | <u>387,317</u>     | <u>493,016</u>     |
| Totals            | <u>\$1,159,553</u> | <u>\$1,387,008</u> |



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## Required Supplementary Information

### A. Federal Account Symbols and Titles

**ENTITY FUNDS** – Customs entity operations are funded principally through the following accounts.

#### General Funds

20X0602 Salaries and Expenses, U.S. Customs Service  
20 0602 Salaries and Expenses, U.S. Customs Service  
20X0604 Operation and Maintenance, Air and Marine Interdiction Program, U.S. Customs Service  
20 0604 Operation and Maintenance, Air and Marine Interdiction Program, U.S. Customs Service  
20 0607 Operations and Maintenance, Customs P-3 Drug Interdiction Program, U.S. Customs Service  
20X0608 Customs Air Interdiction Facilities, Construction, Improvements and Related Expenses  
20X0609 Air and Marine Interdiction Programs, Procurement, U.S. Customs Service

#### Special Funds

20X5694 Customs Services at Small Airports  
20X5695 Customs User Fees Account, U.S. Customs Service

#### Trust Funds

20X8529 Salaries and Expenses Trust Fund, U.S. Customs Service, Treasury  
20 8529 Salaries and Expenses Trust Fund, U.S. Customs Service, Treasury  
20X8870 Harbor Maintenance Fee Collection

**NON-ENTITY FUNDS** – Customs records non-entity activity in the following accounts.

#### General Fund Receipt Accounts

12-1010 Fines, Penalties & Forfeitures, Agriculture Laws, Department of Agriculture  
20-0152 Excise Taxes  
20-0310 Duties on Imports  
20-0311 Tonnage Duty Fees  
20-1040 Fines, Penalties and Forfeitures, Customs, Commerce and Antitrust Laws  
20-1060 Forfeitures of Unclaimed Money and Property  
20-1210 Contributions to Conscience Fund  
20-1435 General Fund Proprietary Interest, Not Otherwise Classified  
20-3200 Collections of Receivables from Canceled Accounts  
20-3220 General Fund Proprietary Receipts, Not Otherwise Classified, All Other  
20F3845.06 Proceeds of Sale, Personal Property  
27-2441 Overtime Service, Federal Communications Commission  
61-3220 General Fund Proprietary Receipts, Not Otherwise Classified, All Other, Consumer Product Safety Commission  
75-3220 General Fund Proprietary Receipts, Not Otherwise Classified, All Other, Dept. of Health & Human Services

#### Deposit Funds

12X6148 Assessments on Imports of Beef and Pork Products, Agriculture Marketing Services, Dept. of Agriculture  
20X6157 Duties Collected for the Virgin Islands Government, U.S. Customs Service, Treasury Department

#### Revolving Funds

04X4505.01 Revolving Fund, Government Printing Office

#### Special Funds and Special Fund Receipt Accounts

12X5161 Agriculture Quarantine Inspection User Fees Account, Animal and Plant Health Inspection Service, Department of Agriculture  
14X5137.2 Import Duties on Arms and Ammunition, Migratory Birds Conservation Account, U.S. Fish and Wildlife  
20-5209 30% of Customs Duties, Funds for Strengthening Markets, Income and Supply  
20X5687 Refunds, Transfers and Expenses of Operation, Puerto Rico, U.S. Customs Service  
20-5695.30 Customs Merchandise Processing Fee, U.S. Customs Service

#### Trust Funds

20X8789 Refunds, Transfers and Expenses, Unclaimed, Abandoned, and Seized Goods, U.S. Customs Service  
20X8863 Harbor Maintenance Trust Fund

#### General Funds

20X0603 Refunds and Drawback, U.S. Customs Service  
20X0903 Refunding Internal Revenue Collections (Indefinite)



## B. Statement of Budgetary Resources

Budgetary resources disaggregated by major accounts for the years ended September 30, 1999 and 1998, consists of the following (in thousands):

|  | 1999               |                 |                    |                    |
|--|--------------------|-----------------|--------------------|--------------------|
|  | General<br>Funds   | Trust<br>Funds  | Special<br>Funds   | Totals             |
| Budgetary Resources  |                    |                 |                    |                    |
| Budget authority   | \$2,076,804        | \$68,472        | \$274,217          | \$2,419,493        |
| Unobligated balance  | 124,549            | 21,211          | 799,381            | 945,141            |
| Spending authority from offsetting collections earned          | 143,148            | 5,772           | 41,464             | 190,384            |
| Adjustments, anticipated for rest of year                      | 174,937            | 952             | 5,923              | 181,812            |
| Total Budgetary Resources                                      | <u>\$2,519,438</u> | <u>\$96,407</u> | <u>\$1,120,985</u> | <u>\$3,736,830</u> |
| Status of Budgetary Resources                                  |                    |                 |                    |                    |
| Obligations incurred   | \$2,240,911        | \$23,799        | \$ 367,434         | \$2,632,144        |
| Unobligated balances available                                 | 234,970            | 72,559          | 113,911            | 421,440            |
| Unobligated balances not available                             | 43,557             | 49              | 639,640            | 683,246            |
| Total Budgetary Resources                                      | <u>\$2,519,438</u> | <u>\$96,407</u> | <u>\$1,120,985</u> | <u>\$3,736,830</u> |
| Outlays  |                    |                 |                    |                    |
| Obligations  | \$2,240,911        | \$23,799        | \$ 367,434         | \$2,632,144        |
| Spending authority from offsetting collections and adjustments | (341,326)          | (6,724)         | (47,387)           | (395,437)          |
| Obligated balance, net-beginning of period                     | 398,669            | 28,980          | 52,906             | 480,555            |
| Obligated balance, net-end of period                           | (493,621)          | (25,378)        | (57,592)           | (576,591)          |
| Total Outlays  | <u>\$1,804,633</u> | <u>\$20,677</u> | <u>\$ 315,361</u>  | <u>\$2,140,671</u> |
|  |                    |                 |                    |                    |
|  | 1998               |                 |                    |                    |
|  | General<br>Funds   | Trust<br>Funds  | Special<br>Funds   | Totals             |
| Budgetary Resources  |                    |                 |                    |                    |
| Budget authority   | \$1,647,716        | \$63,648        | \$335,867          | \$2,047,231        |
| Unobligated balance  | 203,588            | 4,492           | 749,140            | 957,220            |
| Spending authority from offsetting collections earned          | 175,909            | 10,890          | 42,329             | 229,128            |
| Adjustments, anticipated for rest of year                      | 127,506            | 650             | 3,756              | 131,912            |
| Total Budgetary Resources                                      | <u>\$2,154,719</u> | <u>\$79,680</u> | <u>\$1,131,092</u> | <u>\$3,365,491</u> |
| Status of Budgetary Resources                                  |                    |                 |                    |                    |
| Obligations incurred   | \$2,033,878        | \$58,469        | \$ 332,328         | \$2,424,675        |
| Unobligated balances available                                 | 92,977             | 21,176          | 159,124            | 273,277            |
| Unobligated balances not available                             | 27,864             | 35              | 639,640            | 667,539            |
| Total Budgetary Resources                                      | <u>\$2,154,719</u> | <u>\$79,680</u> | <u>\$1,131,092</u> | <u>\$3,365,491</u> |
| Outlays  |                    |                 |                    |                    |
| Obligations  | \$2,033,878        | \$58,469        | \$332,328          | \$2,424,675        |
| Spending authority from offsetting collections and adjustments | (349,611)          | (11,541)        | (46,084)           | (407,236)          |
| Obligated balance, net-beginning of period                     | 326,790            | 8,744           | 56,590             | 392,124            |
| Obligated balance, net-end of period                           | (398,669)          | (28,980)        | (52,906)           | (480,555)          |
| Total Outlays  | <u>\$1,612,388</u> | <u>\$26,692</u> | <u>\$289,928</u>   | <u>\$1,929,008</u> |





## C. Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FYs 1999 and 1998 is as follows (in thousands):

| 1999            |                      |                           |                                  |  |                          |                         |
|-----------------|----------------------|---------------------------|----------------------------------|--|--------------------------|-------------------------|
|                 | Balance<br>October 1 | Additional<br>Assessments | Protest in<br>Favor of<br>Debtor | Net Reduction<br>Administrative<br>Process | Additional<br>Receivable | Balance<br>September 30 |
| Duties          | \$103,300            | \$ 253,427                | \$ (76,683)                      | \$ (37,133)                                | \$ (189,128)             | \$ 53,783               |
| Taxes           | 290                  | 774,910                   | (12,289)                         | (1,913)                                    | (760,967)                | 31                      |
| Fees            | 240                  | 14,619                    | (84)                             | (21)                                       | (14,408)                 | 346                     |
| Fines/Penalties | 1,022,078            | 1,753,894                 | (376,578)                        | (126,289)                                  | (266,872)                | 2,006,233               |
| Interest        | 39,136               | 40,310                    | (15,839)                         | (4,918)                                    | (37,236)                 | 21,453                  |
| Totals          | <u>\$1,165,044</u>   | <u>\$2,837,160</u>        | <u>\$(481,473)</u>               | <u>\$(170,274)</u>                         | <u>\$(1,268,611)</u>     | <u>\$2,081,846</u>      |
| 1998            |                      |                           |                                  |  |                          |                         |
|                 | Balance<br>October 1 | Additional<br>Assessments | Protest in<br>Favor of<br>Debtor | Net Reduction<br>Administrative<br>Process | Additional<br>Receivable | Balance<br>September 30 |
| Duties          | \$ 96,122            | \$ 201,285                | \$ (27,710)                      | \$ (6,861)                                 | \$ (159,536)             | \$ 103,300              |
| Taxes           | 401                  | 702,821                   | --                               | --   | (702,932)                | 290                     |
| Fees            | 45,136               | 11,438                    | (44,326)                         | --   | (12,008)                 | 240                     |
| Fines/Penalties | 1,352,722            | 702,090                   | (198,700)                        | (185,733)                                  | (648,301)                | 1,022,078               |
| Interest        | 39,602               | 37,658                    | (8)                              | --   | (38,116)                 | 39,136                  |
| Totals          | <u>\$1,533,983</u>   | <u>\$1,655,292</u>        | <u>\$(270,744)</u>               | <u>\$(192,594)</u>                         | <u>\$(1,560,893)</u>     | <u>\$1,165,044</u>      |

Customs reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of Customs. Consequently, Customs recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of Customs notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. Consequently, Customs recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

## D. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues



to provide acceptable service and achieves its useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

|                         | Condition<br>Assessment | Deferred<br>Maintenance |
|-------------------------|-------------------------|-------------------------|
| <u>1999</u>             |                         |                         |
| Building and Structures | Fair                    | \$ 759                  |
| Aircraft                | Poor                    | 600                     |
| Vehicles                | Fair                    | 6                       |
| Vessels                 | Poor                    | <u>1,500</u>            |
| Total                   |                         | <u>\$2,865</u>          |
| <u>1998</u>             |                         |                         |
| Building and Structure  | Fair                    | \$ 970                  |
| Vehicles                | Fair                    | <u>77</u>               |
| Total                   |                         | <u>\$1,047</u>          |

#### E. Intra-governmental Assets, Liabilities, Revenue and Costs

Balances representing intra-governmental asset, liability, revenue and expense activity, consist of the following (in thousands):

##### **Intra-governmental Amounts – Assets**

##### Partner Agency

|                                       | Fund<br>Balance with<br>Treasury | Accounts<br>Receivable/<br>Advances |
|---------------------------------------|----------------------------------|-------------------------------------|
| Department of the Treasury            | \$2,724,698                      | \$ --                               |
| Treasury Forfeiture Fund              | --                               | 8,813                               |
| Financial Crimes Enforcement Network  | --                               | 84                                  |
| U.S. Secret Service                   | --                               | 136                                 |
| Alcohol, Tobacco & Firearms           | --                               | 289                                 |
| Bureau of Public Debt/S&E             | --                               | 1                                   |
| Departmental Offices                  | --                               | <u>15,960</u>                       |
| Total Department of the Treasury      | <u>2,724,698</u>                 | <u>25,283</u>                       |
| Department of Defense                 | --                               | 2,145                               |
| Department of Health & Human Services | --                               | 32                                  |
| Agency for International Development  | --                               | 12                                  |
| Department of Transportation          | --                               | 483                                 |
| United States Information Agency      | --                               | 10                                  |
| Federal Deposit Insurance Corp        | --                               | 6                                   |
| General Services Administration       | --                               | 836                                 |
| Department of State                   | --                               | 1,135                               |
| Department of Justice                 | --                               | 5,800                               |
| Department of Interior                | --                               | 1,391                               |
| Department of Agriculture             | --                               | 135                                 |
| Government Accounting Office          | --                               | <u>176</u>                          |
| Total                                 | <u>\$2,724,698</u>               | <u>\$37,444</u>                     |

Additionally, Customs has advanced \$10.03 million to other Federal sources which is expected to be returned without expenditure.

**Intra-governmental Amounts – Liabilities**

| <u>Partner Agency</u>                       | <u>Accounts Payable</u> | <u>Other</u>       |
|---|-------------------------|--------------------|
| Internal Revenue Service/Revenue            | \$ 483                  | \$ --              |
| Bureau of Public Debt/Franchise Funds       | 5                       | --                 |
| Financial Management Service/Miscellaneous  | --                      | 1,727,782          |
| Alcohol, Tobacco & Firearms                 | 2                       | --                 |
| Internal Revenue Service                    | 393                     | --                 |
| Federal Law Enforcement Training Center     | 276                     | --                 |
| Departmental Offices                        | <u>6</u>                | <u>--</u>          |
| Total Department of the Treasury            | 1,165                   | 1,727,782          |
| Department of Defense                       | 1,712                   | 13,898             |
| Department of Energy                        | 26                      | --                 |
| National Aeronautics & Space Administration | 11                      | --                 |
| Department of Health and Human Services     | 367                     | --                 |
| Department of Transportation                | --                      | 1                  |
| General Services Administration             | 16,243                  | 75                 |
| Social Security Administration              | 3,525                   | 1                  |
| Office of Personnel Management              | 11,758                  | --                 |
| Department of State                         | 555                     | 2,495              |
| Department of Labor                         | 109                     | 41,452             |
| Department of Justice                       | 78                      | --                 |
| Department of Interior                      | 9                       | --                 |
| Department of Commerce                      | 19                      | --                 |
| Department of Agriculture                   | 86                      | --                 |
| Government Printing Office                  | <u>236</u>              | <u>--</u>          |
| Total                                       | <u>\$35,899</u>         | <u>\$1,785,704</u> |

**Intra-governmental Amounts – Revenue and Costs**

| <u>Budget Functions</u>   | <u>Exchange<br/>Intra-governmental<br/>Revenue</u> | <u>Cost to Generate<br/>Exchange<br/>Intra-governmental<br/>Revenue</u> |
|---------------------------|--|---|
| Administration of Justice | \$148,380  | \$155,169   |

**Non-Exchange Revenue**

| <u>Partner Agency</u>             | <u>In</u>       | <u>Out</u>   |
|-----------------------------------|-----------------|--------------|
| Department of Defense             | \$15,455        | \$ --        |
| Department of Justice             | 16              | --           |
| Department of Transportation      | 11              | 32           |
| Department of State               | --              | 91           |
| General Services Administration   | 28              | 6            |
| Executive Office of the President | 30              | --           |
| Department of Agriculture         | <u>7</u>        | <u>--</u>    |
| Total                             | <u>\$15,547</u> | <u>\$129</u> |



## Other Accompanying Information

### Entity Receivables

| 1999                       | Aged Period      |                 |                 |               |                 |    | Total          |
|----------------------------|------------------|-----------------|-----------------|---------------|-----------------|----|----------------|
|                            | <=90 days        | 91days-1 year   | 1-2 years       | 2-3 years     | 3+ years        |    |                |
| Reimbursable services      | \$ 3,459         | \$ 170          | \$ 153          | \$ 57         | \$ 196          | \$ | 4,035          |
| User fees                  | <u>65,503</u>    | <u>2,906</u>    | <u>2,623</u>    | <u>972</u>    | <u>3,359</u>    |    | <u>75,363</u>  |
| Gross receivables          | 68,962           | 3,076           | 2,776           | 1,029         | 3,555           |    | 79,398         |
| Less uncollectible amounts | <u>(5,038)</u>   | <u>(224)</u>    | <u>(202)</u>    | <u>(75)</u>   | <u>(259)</u>    |    | <u>(5,798)</u> |
| Net receivables            | \$ <u>63,924</u> | \$ <u>2,852</u> | \$ <u>2,574</u> | \$ <u>954</u> | \$ <u>3,296</u> | \$ | <u>73,600</u>  |

| 1998                       | Aged Period      |                 |                 |                 |                 |    | Total          |
|----------------------------|------------------|-----------------|-----------------|-----------------|-----------------|----|----------------|
|                            | <=90 days        | 91days-1 year   | 1-2 years       | 2-3 years       | 3+ years        |    |                |
| Reimbursable services      | \$ 4,685         | \$ 168          | \$ 495          | \$ 165          | \$ 150          | \$ | 5,663          |
| User fees                  | <u>54,921</u>    | <u>2,921</u>    | <u>7,375</u>    | <u>2,451</u>    | <u>2,222</u>    |    | <u>69,890</u>  |
| Gross receivables          | 59,606           | 3,089           | 7,870           | 2,616           | 2,372           |    | 75,553         |
| Less uncollectible amounts | <u>(2,626)</u>   | <u>(121)</u>    | <u>(358)</u>    | <u>(119)</u>    | <u>(107)</u>    |    | <u>(3,331)</u> |
| Net receivables            | \$ <u>56,980</u> | \$ <u>2,968</u> | \$ <u>7,512</u> | \$ <u>2,497</u> | \$ <u>2,265</u> | \$ | <u>72,222</u>  |

### Non-Entity Receivables

An analysis of the changes in accounts receivable during FYs 1999 and 1998 is as follows (in thousands):

| 1999                       |                   |   |                        |                    |                       |                      |
|----------------------------|-------------------|---|------------------------|--------------------|-----------------------|----------------------|
| Receivable Category        | Balance October 1 | Receivables Recorded During the Fiscal Year | Collections            | Write-offs         | Adjustments           | Balance September 30 |
| Duties                     | \$ 757,526        | \$ 18,806,689                               | \$ (18,725,778)        | \$ (1,618)         | \$ (2,383)            | \$ 834,436           |
| Excise Taxes               | 26,657            | 1,733,355                                   | (1,726,083)            | (7)                | (1,261)               | 32,661               |
| Fees                       | 57,755            | 1,458,923                                   | (1,455,345)            | (19)               | (4,529)               | 56,785               |
| Fines/penalties            | 294,250           | 3,392,077                                   | (52,555)               | (15,209)           | (3,214,433)           | 404,130              |
| Interest                   | 36,510            | 44,217                                      | (31,033)               | (1,901)            | (6,113)               | 41,680               |
| Refunds/drawback           | <u>5,268</u>      | <u>3,491</u>                                | <u>(5,268)</u>         | <u>--</u>          | <u>(117)</u>          | <u>3,374</u>         |
| Totals                     | 1,177,966         | \$ <u>25,438,752</u>                        | \$ <u>(21,996,062)</u> | \$ <u>(18,754)</u> | \$ <u>(3,228,836)</u> | 1,373,066            |
| Less uncollectible amounts | <u>(306,765)</u>  |   |                        |                    |                       | <u>(451,739)</u>     |
| Net receivables            | \$ <u>871,201</u> |   |                        |                    |                       | \$ <u>921,327</u>    |



| 1998                       |                   |   |                 |             |                |                      |
|----------------------------|-------------------|---|-----------------|-------------|----------------|----------------------|
| Receivable Category        | Balance October 1 | Receivables Recorded During the Fiscal Year | Collections     | Write-offs  | Adjustments    | Balance September 30 |
| Duties                     | \$ 742,475        | \$ 18,867,056                               | \$ (18,839,281) | \$ (628)    | \$ (12,096)    | \$ 757,526           |
| Excise Taxes               | 33,819            | 1,170,040                                   | (1,175,770)     | (12)        | (1,420)        | 26,657               |
| Fees                       | 61,972            | 1,405,894                                   | (1,403,492)     | (6)         | (6,613)        | 57,755               |
| Fines/penalties            | 224,948           | 1,969,133                                   | (53,143)        | (27,758)    | (1,818,930)    | 294,250              |
| Interest                   | 35,085            | 45,806                                      | (26,560)        | (1,645)     | (16,176)       | 36,510               |
| Refunds/drawback           | 5,935             | 5,268                                       | (5,935)         | --          | --             | 5,268                |
| Totals                     | 1,104,234         | \$ 23,463,197                               | \$ (21,504,181) | \$ (30,049) | \$ (1,855,235) | 1,177,966            |
| Less uncollectible amounts | (224,396)         |   |                 |             |                | (306,765)            |
| Net receivables            | \$ 879,838        |   |                 |             |                | \$ 871,201           |

An aging of non-entity Intra-governmental receivables as of September 30, 1999 and 1998 is as follows (in thousands):

| 1999                       | Aged Period |               |           |           |           |    | Total      |
|----------------------------|-------------|---------------|-----------|-----------|-----------|----|------------|
|                            | <=90 days   | 91days-1 year | 1-2 years | 2-3 years | 3+ years  |    |            |
| Duties                     | \$ 777,547  | \$ 6,703      | \$ 17,262 | \$ 1,831  | \$ 31,093 | \$ | \$ 834,436 |
| Excise taxes               | 32,336      | 99            | 13        | 21        | 192       |    | 32,661     |
| User fees                  | 56,174      | 17            | 498       | 2         | 94        |    | 56,785     |
| Fines/penalties            | 136,947     | 60,834        | 67,283    | 14,743    | 124,323   |    | 404,130    |
| Interest                   | 53          | 1,570         | 6,769     | 454       | 32,834    |    | 41,680     |
| Refunds and drawback       | --          | 373           | 1,230     | 64        | 1,707     |    | 3,374      |
| Gross receivables          | 1,003,057   | 69,596        | 93,055    | 17,115    | 190,243   |    | 1,373,066  |
| Less uncollectible amounts | (125,957)   | (61,814)      | (83,710)  | (14,916)  | (165,342) |    | (451,739)  |
| Net receivables            | \$ 877,100  | \$ 7,782      | \$ 9,345  | \$ 2,199  | \$ 24,901 | \$ | \$ 921,327 |

| 1998                       | Aged Period |               |           |           |           |    | Total      |
|----------------------------|-------------|---------------|-----------|-----------|-----------|----|------------|
|                            | <=90 days   | 91days-1 year | 1-2 years | 2-3 years | 3+ years  |    |            |
| Duties                     | \$ 733,997  | \$ 10,752     | \$ 943    | \$ 7,629  | \$ 4,205  | \$ | \$ 757,526 |
| Excise taxes               | 26,228      | 410           | 3         | --        | 16        |    | 26,657     |
| User fees                  | 53,436      | 2,386         | 280       | 214       | 1,439     |    | 57,755     |
| Fines/penalties            | 64,920      | 48,955        | 93,877    | 34,866    | 51,632    |    | 294,250    |
| Interest                   | 60          | 17,869        | 248       | 12,240    | 6,093     |    | 36,510     |
| Refunds and drawback       | --          | 2,123         | 62        | 2,070     | 1,013     |    | 5,268      |
| Gross receivables          | 878,641     | 82,495        | 95,413    | 57,019    | 64,398    |    | 1,177,966  |
| Less uncollectible amounts | (56,795)    | (64,704)      | (85,060)  | (49,963)  | (50,243)  |    | (306,765)  |
| Net receivables            | \$ 821,846  | \$ 17,791     | \$ 10,353 | \$ 7,056  | \$ 14,155 | \$ | \$ 871,201 |





## Customs Collections by Category

(Dollars in thousands)

|                               | <u>1995</u>         | <u>1996</u>         | <u>1997</u>         | <u>1998</u>         | <u>1999</u>         |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Duties</b>                 |                     |                     |                     |                     |                     |
| Consumption entries           | \$19,565,279        | \$18,465,609        | \$18,720,977        | \$18,537,332        | \$18,405,248        |
| Warehouse withdrawals         | 186,677             | 142,729             | 146,247             | 121,593             | 136,902             |
| Mail entries                  | 10,714              | 9,487               | 9,076               | 8,419               | 8,022               |
| Passenger baggage entries     | 18,375              | 18,677              | 20,117              | 20,474              | 20,866              |
| Crew baggage entries          | 113                 | 97                  | 87                  | 105                 | 100                 |
| Military baggage entries      | 63                  | 61                  | 42                  | 51                  | 37                  |
| Informal entries              | 30,995              | 31,103              | 28,890              | 31,209              | 40,590              |
| Vessel repair entries         | 7,662               | 19,930              | 9,847               | 14,896              | 14,660              |
| Other duties                  | <u>576,486</u>      | <u>516,233</u>      | <u>301,275</u>      | <u>384,058</u>      | <u>428,968</u>      |
| <b>Total Duties</b>           | <u>20,396,364</u>   | <u>19,203,926</u>   | <u>19,236,558</u>   | <u>19,118,137</u>   | <u>19,055,393</u>   |
| <b>Miscellaneous</b>          |                     |                     |                     |                     |                     |
| Violations of Customs law     | 38,859              | 52,717              | 43,377              | 56,554              | 56,089              |
| Testing, inspecting & grading | 133                 | 84                  | 40                  | 32                  | 25                  |
| Miscellaneous taxes           | 62,539              | 63,350              | 64,882              | 67,169              | 68,738              |
| USDA collections              | 45,862              | 49,444              | 53,160              | 62,847              | 66,487              |
| Harbor maintenance fee        | 671,260             | 676,804             | 732,759             | 645,023             | 551,146             |
| Fees                          | 6                   | 1,769               | 1,940               | 2,488               | 2,368               |
| User fee account              | 1,075,304           | 1,171,402           | 1,287,174           | 1,241,614           | 1,208,258           |
| Unclaimed funds               | 1,495               | 47                  | 940                 | 1,529               | 2,175               |
| Recoveries                    | 63                  | 54                  | 43                  | 30                  | 27                  |
| Interest                      | 17,038              | 30,008              | 13,882              | 26,900              | 31,437              |
| Other Customs receipts        | <u>886</u>          | <u>7,540</u>        | <u>10,828</u>       | <u>13,672</u>       | <u>11,908</u>       |
| <b>Total Miscellaneous</b>    | <u>1,913,445</u>    | <u>2,053,219</u>    | <u>2,209,025</u>    | <u>2,117,858</u>    | <u>1,998,658</u>    |
| <b>Internal Revenue Taxes</b> | <u>1,009,522</u>    | <u>1,067,316</u>    | <u>1,152,855</u>    | <u>1,171,844</u>    | <u>1,351,749</u>    |
| <b>Total Collections</b>      | <u>\$23,319,331</u> | <u>\$22,324,461</u> | <u>\$22,598,438</u> | <u>\$22,407,839</u> | <u>\$22,405,800</u> |

Total Collections include both custodial, duty, tax, fee and interest collections, and entity user fee collections recorded by port locations during the period October through September, as follows:

|                          |                     |                     |                     |                     |                     |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Custodial collections    | \$22,945,614        | \$21,903,020        | \$22,143,578        | \$22,071,957        | \$22,132,062        |
| Entity collections       | <u>373,717</u>      | <u>421,441</u>      | <u>454,860</u>      | <u>335,882</u>      | <u>273,738</u>      |
| <b>Total Collections</b> | <u>\$23,319,331</u> | <u>\$22,324,461</u> | <u>\$22,598,438</u> | <u>\$22,407,839</u> | <u>\$22,405,800</u> |



## Customs Collections by Major Processing Port Locations

(Dollars in thousands)

|  | 1995                | 1996                | 1997                | 1998                | 1999                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Boston                                     | \$ 626,385          | \$ 546,342          | \$ 545,441          | \$528,748           | \$500,925           |
| Buffalo-Niagara Falls                      | 262,168             | 229,941             | 183,606             | 153,804             | 155,041             |
| Ogdensburg                                 | 145,424             | 124,786             | 112,551             | 85,939              | 78,847              |
| Portland, Maine                            | 45,611              | 40,102              | 39,994              | 42,974              | 40,216              |
| Providence                                 | 36,632              | 41,161              | 49,568              | 38,731              | 41,322              |
| St. Albans                                 | 63,296              | 56,971              | 49,580              | 39,099              | 28,913              |
| Baltimore                                  | 541,959             | 510,508             | 496,313             | 500,656             | 503,445             |
| Philadelphia                               | 587,337             | 564,226             | 500,473             | 500,449             | 525,247             |
| New York                                   | 185,459             | 171,766             | 185,181             | 226,988             | 296,256             |
| Newark                                     | 3,272,510           | 3,009,692           | 3,154,876           | 3,194,299           | 3,150,573           |
| JFK Airport                                | 1,412,708           | 1,340,597           | 1,384,536           | 1,329,737           | 1,293,669           |
| Charleston                                 | 535,754             | 496,976             | 549,792             | 604,678             | 575,912             |
| Miami                                      | 647,477             | 653,342             | 754,570             | 837,987             | 919,150             |
| San Juan                                   | 165,309             | 123,484             | 121,066             | 125,822             | 115,908             |
| St. Thomas                                 | 9,549               | 11,225              | 9,404               | 9,129               | 10,444              |
| Savannah                                   | 659,137             | 609,357             | 626,611             | 640,669             | 659,185             |
| Tampa                                      | 372,269             | 339,321             | 354,564             | 326,666             | 372,144             |
| Wilmington                                 | 354,266             | 317,410             | 324,952             | 322,603             | 331,555             |
| Norfolk                                    | 323,294             | 333,931             | 352,811             | 368,490             | 382,301             |
| Washington, DC                             | 270,915             | 707,876             | 762,730             | 509,253             | 351,186             |
| Mobile                                     | 71,643              | 66,703              | 54,904              | 64,367              | 61,324              |
| New Orleans                                | 798,514             | 785,787             | 832,394             | 834,440             | 761,820             |
| Dallas/Ft. Worth                           | 371,457             | 336,532             | 327,187             | 301,545             | 274,542             |
| El Paso                                    | 119,679             | 102,558             | 103,601             | 107,708             | 103,953             |
| Houston                                    | 505,298             | 473,335             | 448,137             | 464,907             | 437,079             |
| Laredo                                     | 374,698             | 370,447             | 396,701             | 366,933             | 356,370             |
| Port Arthur                                | 38,794              | 30,683              | 31,700              | 31,178              | 28,035              |
| Nogales                                    | 139,581             | 118,714             | 117,279             | 109,816             | 106,129             |
| Los Angeles                                | 4,462,194           | 4,225,403           | 4,285,908           | 4,499,699           | 4,616,494           |
| San Diego                                  | 143,259             | 120,875             | 165,473             | 176,009             | 191,405             |
| Anchorage                                  | 92,556              | 103,535             | 104,096             | 88,297              | 96,252              |
| Honolulu                                   | 52,485              | 46,234              | 45,174              | 38,600              | 41,923              |
| Portland                                   | 303,385             | 274,653             | 330,242             | 310,182             | 289,660             |
| San Francisco                              | 1,162,236           | 1,138,605           | 893,218             | 817,569             | 820,212             |
| Seattle                                    | 731,275             | 622,937             | 634,502             | 642,053             | 713,242             |
| Chicago                                    | 1,295,564           | 1,227,717           | 1,229,959           | 1,248,647           | 1,258,832           |
| Cleveland                                  | 1,039,214           | 1,015,673           | 1,034,749           | 1,003,474           | 990,196             |
| Detroit                                    | 594,701             | 552,423             | 502,606             | 438,979             | 430,802             |
| Duluth                                     | 3,932               | 1,817               | 1,978               | 1,322               | 1,393               |
| Milwaukee                                  | 56,453              | 54,565              | 48,270              | 45,794              | 40,967              |
| Minneapolis                                | 107,343             | 104,836             | 106,829             | 101,115             | 94,402              |
| Pembina                                    | 23,217              | 20,195              | 15,440              | 9,990               | 10,941              |
| St. Louis                                  | 215,515             | 222,584             | 228,010             | 237,332             | 231,650             |
| Great Falls                                | 98,878              | 96,877              | 95,286              | 90,801              | 96,049              |
| <b>Total Collections</b>                   | <b>\$23,319,331</b> | <b>22,342,702</b>   | <b>22,592,262</b>   | <b>22,417,478</b>   | <b>22,385,911</b>   |
| Net Financial Statement<br>Adjustments (a) |                     | (18,241)            | 6,176               | (9,639)             | 19,889              |
| <b>Total Revenues Collected</b>            |                     | <b>\$22,324,461</b> | <b>\$22,598,438</b> | <b>\$22,407,839</b> | <b>\$22,405,800</b> |

(a) Total collections represent collections recorded by the port locations during the fiscal year. Net financial statement adjustments primarily represent adjustments for timing differences for collections received during the fiscal year but not recorded until the next fiscal year.



## Acronyms

|         |   |          |   |
|---------|---|----------|---|
| ACE     | Automated Commercial Environment  | GSA      | General Services Administration                       |
| ACH     | Automated Clearinghouse   | GSP      | General System of Preference                          |
| ADP     | Automated Data Processing   | HRM      | Human Resources Management                            |
| ADR     | Alternative Dispute Resolution  | HTS      | Harmonized Tariff Schedule                            |
| AES     | Automated Entry System  | IA       | Internal Affairs                                      |
| AIMS    | Asset Information Management System   | ICDE     | Interagency Crime and Drug Enforcement                |
| AIRG    | Asset Identification and Removal Group  | INA      | International Affairs                                 |
| AISSD   | Automated Information Systems<br>Security Division  | INS      | Immigration and Naturalization Service                |
| APIS    | Advance Passenger Information System  | IT       | Information Technology                                |
| ATS/AT  | Automated Targeting System/Antiterrorism  | JIATF    | Joint Interagency Task Force                          |
| BMPE    | Black Market Peso Exchange  | MLCC     | Money Laundering Coordination Center                  |
| CFO Act | Chief Financial Officer Act   | MOU      | Memorandum of Understanding                           |
| CFR     | Code of Federal Regulations   | NAFTA    | North American Free Trade Agreement                   |
| CMC     | Customs Management Center   | NCAP     | National Customs Automation Program                   |
| CMIS    | Customs Management Information System   | NCMEC    | National Center for Missing and<br>Exploited Children |
| COBRA   | Consolidated Omnibus Budget<br>Reconciliation Act   | NLCIFT   | National Law Center for Inter-American<br>Free Trade  |
| CSRS    | Civil Service Retirement System   | NTEU     | National Treasury Employees Union                     |
| DCL     | Dedicated Commuter Lane   | OF       | Office of Finance                                     |
| DEA     | Drug Enforcement Administration   | OFAC     | Office of Foreign Asset Control                       |
| DoD     | Department of Defense   | OFO      | Office of Field Operations                            |
| DSO     | Drug Smuggling Organization   | OI       | Office of Investigations                              |
| EA      | Enterprise Architecture   | OIT      | Office of Information and Technology                  |
| EDI     | Electronic Data Interchange   | OMB      | Office of Management and Budget                       |
| EEO     | Equal Employment Opportunity  | OPAC     | On-Line Payment and Collection                        |
| EFT     | Electronic Funds Transfer   | OPEB     | Other Postemployment Benefits                         |
| ERC     | Emergency Response Center   | OPM      | Office of Personnel Management                        |
| FASAB   | Federal Accounting Standards<br>Advisory Board  | ORB      | Other Retirement Benefits                             |
| FECA    | Federal Employees' Compensation Act   | OR&R     | Office of Regulations and Rulings                     |
| FEGLI   | Federal Employees' Group Life<br>Insurance Program  | OST      | Office of Strategic Trade                             |
| FEHBP   | Federal Employees' Health Benefit Program   | OTD      | Office of Training and Development                    |
| FERS    | Federal Employees' Retirement System FFMIA<br>Federal Financial Management<br>Improvement Act | PFI      | Primary Focus Industry                                |
| FMFIA   | Federal Managers' Financial Integrity Act   | POE      | Port of Entry   |
| FP&F    | Fines, Penalties and Forfeitures  | QPAM     | Quality Planning for Asset Management                 |
| FY      | Fiscal Year   | SEACATS  | Seized Asset and Case Tracking System                 |
| GAAP    | General Accepted Accounting Principles GMRA   | SED      | Shipper's Export Declaration                          |
| GPRA    | Government Management Reform Act<br>Government Performance and Results Act                    | SGL      | Standard General Ledger                               |
|         |   | Treasury | Department of the Treasury                            |
|         |   | U.S.C.   | United States Code                                    |
|         |   | USDA     | U.S. Department of Agriculture                        |
|         |   | WMD      | Weapons of Mass Destruction                           |
|         |   | Y2K      | Year 2000   |



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## "Faxback Feedback"

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